

# **TOWN OF LEE, MASSACHUSETTS**

## **Financial Statements**

**June 30, 2014**

	Page
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	5
Statement of Activities	6
<b>Fund Financial Statements</b>	
<b>Governmental Funds</b>	
Balance Sheet	7
Statement of Revenues, Expenditures and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Basis) - General Fund	10
<b>Proprietary Funds – Enterprise Funds</b>	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Fund Net Position	12
Statement of Cash Flows	13
<b>Fiduciary Funds</b>	
Statement of Fiduciary Net Position	14
Statement of Changes in Fiduciary Net Position	15
<b>Notes to Financial Statements</b>	16 - 29
<b>Required Supplementary Information</b>	
Schedule of Other Post-employment Benefits Funding Progress	30
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31 - 32



# Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

Richard F. LaFleche, CPA  
 Vincent T. Viscuso, CPA  
 Gary J. Moynihan, CPA  
 Carol Leibinger-Healey, CPA  
 David M. Irwin, Jr., CPA

## 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, Massachusetts, as of and for the year ended June 30, 2014, 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, 2014, 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 30 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 requires 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 January 23, 2015 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

January 23, 2015



**Town of Lee, Massachusetts**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2014**

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, 2014. 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 management's 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 29 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 \$30,915,140 at the close of the most recent fiscal year. This represents a decrease in net position over the prior fiscal year of \$553,093.

Net position of \$27,942,385 (90%) 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

	2014			2013
	Governmental Activities	Business-type Activities	Totals	Totals
Current and other assets	\$ 7,732,879	\$ 3,801,191	\$ 11,534,070	\$ 11,067,651
Capital assets, net	25,012,890	30,939,304	55,952,194	57,682,789
<b>TOTAL ASSETS</b>	<b>32,745,769</b>	<b>34,740,495</b>	<b>67,486,264</b>	<b>68,750,440</b>
Current liabilities	389,168	279,011	668,179	681,220
Long-term debt and related liabilities	8,976,508	19,354,809	28,331,317	30,225,936
Post-employment benefits other than pensions	7,217,436	354,192	7,571,628	6,375,051
<b>TOTAL LIABILITIES</b>	<b>16,583,112</b>	<b>19,988,012</b>	<b>36,571,124</b>	<b>37,282,207</b>
Invested in capital assets, net of related debt	16,357,890	11,584,495	27,942,385	27,330,344
Restricted for	1,998,101	---	1,998,101	1,530,332
Unrestricted	(2,193,334)	3,167,988	974,654	2,607,557
<b>TOTAL NET POSITION</b>	<b>\$ 16,162,657</b>	<b>\$ 14,752,483</b>	<b>\$ 30,915,140</b>	<b>\$ 31,468,233</b>

**Statement of Activities**

The Statement of Activities reflects total operating expenses for the Town as \$26,802,063 for all activities. Revenues totaled \$26,248,970 for all activities. The net change result of \$(553,093) is a reduction in net position. The deficit is absorbed by cumulative available funds.

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

	2014			2013
	Governmental Activities	Business-type Activities	Total Activities	Totals
Revenues				
Taxes	\$ 13,525,211		\$ 13,525,211	\$ 13,232,177
Charges for services	2,379,700	\$ 2,911,874	5,291,574	5,254,530
Grants and contributions	6,949,354		6,949,354	7,539,941
Penalties and fines	111,910		111,910	152,153
Interest income	15,807	20,771	36,578	35,991
Other revenues	334,343		334,343	248,368
Total revenues	<u>23,316,325</u>	<u>2,932,645</u>	<u>26,248,970</u>	<u>26,463,160</u>
Expenses				
General government	1,306,432		1,306,432	1,371,539
Public safety	1,604,368		1,604,368	2,268,860
Education	12,908,007		12,908,007	12,802,081
Public works	1,269,826		1,269,826	1,474,048
Health and human services	454,541		454,541	501,396
Cultural and recreation	371,808		371,808	405,473
Employee benefits	4,545,281		4,545,281	4,542,901
Insurance	132,996		132,996	124,788
Intergovernmental assessments	598,636		598,636	522,030
Water and sewer		3,236,337	3,236,337	3,271,431
Interest and fiscal charges	373,831		373,831	440,126
Transfers	(10,000)	10,000	---	---
Total expenses	<u>23,555,726</u>	<u>3,246,337</u>	<u>26,802,063</u>	<u>27,724,673</u>
Change in net position	(239,401)	(313,692)	(553,093)	(1,261,513)
Net position, beginning	<u>16,402,058</u>	<u>15,066,175</u>	<u>31,468,233</u>	<u>32,729,746</u>
Net position, ending	<u>\$ 16,162,657</u>	<u>\$ 14,752,483</u>	<u>\$ 30,915,140</u>	<u>\$ 31,468,233</u>

Governmental activities net position decreased by \$(239,401) in fiscal year 2014. The key elements of this decrease are as follows:

- The net decrease in governmental activities 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, 2014 of \$1,139,545. In addition, the Town also recorded depreciation expense of \$1,149,953.

- Fifty one (51%) percent of the revenues of the Town were derived from property taxes, followed by twenty-six percent (26%) from operating and capital grants and contributions, twenty percent (20%) from charges for services (water, sewer and other governmental services), and three percent (3%) from other revenues including investment earnings.

### Property Taxes

Property tax revenues recorded for the fiscal year ended June 30, 2014 reflects an increase in the Town's residential and commercial tax rate to \$14.15. The tax rates and valuation data over the three previous years are as follows:

	2014	2013	2012
Real and personal property valuation	\$ 881,460,258	\$ 878,593,837	\$ 879,955,247
Tax levy	\$ 12,472,663	\$ 12,379,387	\$ 12,028,988
Property tax rates (per thousand)	\$ 14.15	\$ 14.09	\$ 13.67

### 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 \$6,418,176. Of this amount, \$4,034,373 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 2014 tax rate. This leaves an unassigned governmental fund balance of \$2,383,803 for the general fund.

The governmental fund activities for the year resulted in an increase in net fund balance of \$759,427. Key elements of this change are as follows:

- Total revenues were \$23,445,414
- Total expenses were \$22,685,987
- Included in the expenses is capital outlay of \$411,375. 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 \$1,361,173 (\$900,000 principal repayment and \$461,173 interest expense). These amounts are budgeted as expenses in the general fund but the principal repayment of \$900,000 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 \$14,752,483. Of this amount, \$11,584,495 is invested in capital assets which is net of any related debt used to acquire or construct those assets, and \$3,167,988 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 \$(313,692). Key elements of this change are as follows:

- Operating revenues were \$2,932,645
- Operating expenses were \$3,246,337
- Included in operating expenses is depreciation expense of \$1,224,457.
- Also included in operating expenses is other post-employment benefits (OPEB) expense of \$57,032. The details of the OPEB can be found on pages 27, 28 and 30 of this report.
- Debt service for interest expense on long-term debt was \$509,480. Principal repayment of long-term debt, which is reported on the statement of net position, was \$1,764,735.

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, 2014, amounts to \$55,952,194 (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 Activities	Business-type Activities	Total
Land	\$ 2,457,263		\$ 2,457,263
Construction in process	167,713	\$ 508,358	676,071
Buildings and improvements	18,393,398	21,520,052	39,913,450
Land improvements	1,005,713		1,005,713
Machinery and equipment	1,318,380	392,801	1,711,181
Infrastructure	1,670,423	8,518,093	10,188,516
Total	<u>\$ 25,012,890</u>	<u>\$ 30,939,304</u>	<u>\$ 55,952,194</u>
Current year depreciation expense	<u>\$ 1,149,953</u>	<u>\$ 1,224,457</u>	<u>\$ 2,374,410</u>
Current year additions:			
High school gym roof	\$ 51,629		\$ 51,629
Ambulance roof	26,061		26,061
School network switches	34,608		34,608
Ford F250 pickup truck	34,987		34,987
Ford F550 dump truck with sander	92,809		92,809
Ford Fusion COA vehicle	16,864		16,864
Library purchases	41,803		41,803
Infrastructure improvements	112,614	\$ 193,948	306,562
Hydrants		11,505	11,505
Ford Ranger pickup		10,000	10,000
Emergency generators		16,987	16,987
Total	<u>\$ 411,375</u>	<u>\$ 232,440</u>	<u>\$ 643,815</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 \$28,009,809. 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, 2014**

	Governmental Activities	Business-type Activities	Total
Elementary school	\$ 7,065,000		\$ 7,065,000
High school	1,590,000		1,590,000
Water plant (multiple bonds)		\$ 4,328,497	4,328,497
Water tank		30,000	30,000
Water distribution system		448,608	448,608
Sewer plant		14,547,704	14,547,704
Total	<u>\$ 8,655,000</u>	<u>\$ 19,354,809</u>	<u>\$ 28,009,809</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 24 and 25 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 2015 operating and capital budget can be found on page 29 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, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
Current:			
Cash and cash equivalents	\$ 6,280,580	\$ 3,019,922	\$ 9,300,502
Receivables, net	950,660	763,762	1,714,422
Other assets	3,382	17,507	20,889
Temporarily restricted cash	498,257		498,257
Noncurrent:			
Capital assets, net	25,012,890	30,939,304	55,952,194
<b>TOTAL ASSETS</b>	<b>32,745,769</b>	<b>34,740,495</b>	<b>67,486,264</b>
<b>LIABILITIES</b>			
Current:			
Warrants and other payables	151,440	7,344	158,784
Payroll and related liabilities	212,603	6,768	219,371
Accrued interest payable	25,125	264,899	290,024
Current portion of long-term debt	1,110,000	1,569,857	2,679,857
Noncurrent:			
Long-term debt, net of current portion	7,545,000	17,784,952	25,329,952
Unamortized bond premium	321,508		321,508
Post-employment benefits other than pensions	7,217,436	354,192	7,571,628
<b>TOTAL LIABILITIES</b>	<b>16,583,112</b>	<b>19,988,012</b>	<b>36,571,124</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	16,357,890	11,584,495	27,942,385
Restricted for			
Special revenue funds	1,499,844		1,499,844
Conservation trust fund	4,194		4,194
Expendable trust funds	301,643		301,643
Nonexpendable trust funds	192,420		192,420
Unrestricted	(2,193,334)	3,167,988	974,654
<b>TOTAL NET POSITION</b>	<b>\$ 16,162,657</b>	<b>\$ 14,752,483</b>	<b>\$ 30,915,140</b>

See notes to financial statements.

**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2014**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Governmental activities</b>						
General government	\$ 1,306,432	\$ 528,198	\$ 226,690		\$ (551,544)	\$ (551,544)
Public safety	1,604,368	135,845	168,419		(1,300,104)	(1,300,104)
Education	12,908,007	1,637,078	5,664,808		(5,606,121)	(5,606,121)
Public works	1,269,826	16,671	35,049	\$ 247,864	(970,242)	(970,242)
Health and human services	454,541	61,908	53,297		(339,336)	(339,336)
Cultural and recreation	371,808		14,019		(357,789)	(357,789)
Employee benefits	4,545,281				(4,545,281)	(4,545,281)
Insurance	132,996				(132,996)	(132,996)
Intergovernmental assessments	598,636				(598,636)	(598,636)
Interest and fiscal charges	373,831				(373,831)	(373,831)
Total governmental activities	23,565,726	2,379,700	6,162,282	247,864	(14,775,880)	(14,775,880)
<b>Business type activities</b>						
Water	1,445,683	1,071,775			\$ (373,908)	(373,908)
Sewer	1,790,654	1,840,099			49,445	49,445
Total business type activities	3,236,337	2,911,874	---	---	(324,463)	(324,463)
Total all activities	\$ 26,802,063	\$ 5,291,574	\$ 6,162,282	\$ 247,864	(14,775,880)	(15,100,343)
General revenues:						
Taxes					13,525,211	13,525,211
Grants and contributions not restricted to specific programs						
Penalties and fines					539,208	539,208
Interest income					111,910	111,910
Other revenues					15,807	20,771
Transfers - internal activities					334,343	334,343
					10,000	(10,000)
Total general revenues and transfers					14,536,479	14,547,250
CHANGE IN NET POSITION						
Net position, beginning					(239,401)	(313,692)
					16,402,058	15,066,175
NET POSITION, ENDING					\$ 16,162,657	\$ 14,752,483
						\$ 30,915,140

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## BALANCE SHEET

## GOVERNMENTAL FUNDS

June 30, 2014

	General	Other Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,747,166	\$ 1,533,414	\$ 6,280,580
Receivables	384,729	565,931	950,660
Other assets	3,382		3,382
Cash - restricted		498,257	498,257
<b>TOTAL ASSETS</b>	<b>\$ 5,135,277</b>	<b>\$ 2,597,602</b>	<b>\$ 7,732,879</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Warrants and other payable	\$ 130,220	\$ 21,220	\$ 151,440
Payroll and related liabilities	200,253	12,350	212,603
Unearned revenue	384,729	565,931	950,660
<b>Total liabilities</b>	<b>715,202</b>	<b>599,501</b>	<b>1,314,703</b>
<b>FUND BALANCES</b>			
Restricted	348,881	1,993,907	2,342,788
Committed	456,542	4,194	460,736
Assigned	1,230,849		1,230,849
Unassigned	2,383,803		2,383,803
<b>Total fund balances</b>	<b>4,420,075</b>	<b>1,998,101</b>	<b>6,418,176</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,135,277</b>	<b>\$ 2,597,602</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	25,012,890
Accrued interest on outstanding debt is recorded on the statement of net position, whereas in the governmental funds, interest is not reported until due	(25,125)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(8,976,508)
Postemployment benefits other than pensions	(7,217,436)
Revenues are reported on the accrual basis of accounting and not deferred	950,660
<b>Net position of governmental activities</b>	<b>\$ 16,162,657</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, 2014**

	General	Other Nonmajor Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 12,398,782		\$ 12,398,782
Excise and other taxes	1,109,686		1,109,686
Licenses and permits	21,312		21,312
Charges for services	511,156	\$ 1,828,788	2,339,944
Penalties and fines	111,910		111,910
Intergovernmental	6,002,677	1,100,953	7,103,630
Interest income	10,972	4,835	15,807
Other revenues	143,177	191,166	334,343
<b>TOTAL REVENUES</b>	<b>20,309,672</b>	<b>3,125,742</b>	<b>23,435,414</b>
EXPENDITURES			
General government	787,596	490,610	1,278,206
Public safety	1,292,683	208,622	1,501,305
Education	10,473,853	1,759,376	12,233,229
Public works	1,166,579	177,443	1,344,022
Health and human services	188,682	290,586	479,268
Cultural and recreation	341,578	9,838	351,416
Employee benefits	3,405,736		3,405,736
Insurance	132,996		132,996
Intergovernmental assessments	598,636		598,636
Debt service:			
Principal retirement	900,000		900,000
Interest and fiscal charges	461,173		461,173
<b>TOTAL EXPENDITURES</b>	<b>19,749,512</b>	<b>2,936,475</b>	<b>22,685,987</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>560,160</b>	<b>189,267</b>	<b>749,427</b>
OTHER FINANCING SOURCES (USES)			
Transfers in	62,551	339,959	402,510
Transfers out	(331,053)	(61,457)	(392,510)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(268,502)</b>	<b>278,502</b>	<b>10,000</b>
Net change in fund balances	291,658	467,769	759,427
Fund balances, beginning	4,128,417	1,530,332	5,658,749
<b>FUND BALANCES, ENDING</b>	<b>\$ 4,420,075</b>	<b>\$ 1,998,101</b>	<b>\$ 6,418,176</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, 2014**

**NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ 759,427**

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense:

Capital asset purchases capitalized	411,375
Depreciation expense	(1,149,953)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate, personal property, and excise) differ between the two statements. This amount represents the net change in unearned revenue

199,419

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction however, has any effect on net position:

Debt principal payments	900,000
Repayment of capital leases	11,042

Unamortized bond premium is reported under the accrual basis of accounting:

Increase in unamortized bond premium	(321,508)
--------------------------------------	-----------

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:

Decrease in accrued interest payable	90,342
Increase in postemployment benefits other than pensions	(1,139,545)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ (239,401)**

**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP BASIS) - GENERAL FUNDS**

**For the Year Ended June 30, 2014**

	General Fund			
	Budget		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 12,268,960	\$ 12,268,960	\$ 12,398,782	\$ 129,822
Excise and other taxes	963,485	963,485	1,109,686	146,201
Licenses and permits	21,525	21,525	21,312	(213)
Charges for services	495,798	495,798	511,156	15,358
Penalties and fines	109,766	109,766	111,910	2,144
Intergovernmental	3,685,387	3,685,387	3,672,999	(12,388)
Interest income	8,000	8,000	7,946	(54)
Other revenues	148,177	148,177	143,177	(5,000)
TOTAL REVENUES	17,701,098	17,701,098	17,976,968	275,870
EXPENDITURES				
General government	857,135	857,135	747,877	109,258
Public safety	1,409,075	1,409,075	1,250,138	158,937
Education	8,144,175	8,144,175	8,144,175	---
Public works	1,424,349	1,424,349	1,367,638	56,711
Health and human services	242,417	242,417	188,408	54,009
Culture and recreation	354,951	354,951	338,276	16,675
Employee benefits	3,482,600	3,482,600	3,405,736	76,864
Insurance	136,818	136,818	132,996	3,822
Intergovernmental assessments	598,636	598,636	598,636	---
Debt service:				
Principal retirement	900,000	900,000	900,000	---
Interest and fiscal charges	461,173	461,173	461,173	---
TOTAL EXPENDITURES	18,011,329	18,011,329	17,535,053	476,276
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(310,231)	(310,231)	441,915	752,146
OTHER FINANCING SOURCES (USES)				
Transfers in	62,551	62,551	62,551	---
Transfers out	(536,053)	(536,053)	(536,053)	---
Revenue appropriation	783,733	783,733	783,733	---
TOTAL OTHER FINANCING SOURCES	310,231	310,231	310,231	---
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ ---	\$ ---	\$ 752,146	\$ 752,146

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## STATEMENT OF NET POSITION

## PROPRIETARY FUNDS

June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 642,820	\$ 2,377,102	\$ 3,019,922
Accounts receivable from customers (net of allowance for uncollectables)	292,619	471,143	763,762
Tax liens and foreclosures	6,119	11,388	17,507
Total current assets	941,558	2,859,633	3,801,191
Capital assets, net	10,145,092	20,794,212	30,939,304
TOTAL ASSETS	11,086,650	23,653,845	34,740,495
LIABILITIES			
Current liabilities			
Warrants and other payables	3,980	3,364	7,344
Payroll and related liabilities	4,784	1,984	6,768
Accrued interest	118,711	146,188	264,899
Current portion of long-term debt	565,123	1,004,734	1,569,857
Noncurrent liabilities			
Long-term debt, net of current portion	4,211,982	13,572,970	17,784,952
Post-employment benefits other than pensions	192,505	161,687	354,192
TOTAL LIABILITIES	5,097,085	14,890,927	19,988,012
NET POSITION			
Invested in capital assets, net of related debt	5,367,987	6,216,508	11,584,495
Unrestricted	621,578	2,546,410	3,167,988
TOTAL NET POSITION	\$ 5,989,565	\$ 8,762,918	\$ 14,752,483

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, 2014**

	Enterprise Funds		
	Water	Sewer	Total
Operating revenues			
Charges for services	\$ 1,063,707	\$ 1,839,531	\$ 2,903,238
Other revenue	8,068	568	8,636
Total operating revenues	<u>1,071,775</u>	<u>1,840,099</u>	<u>2,911,874</u>
Operating expenses			
Salaries and wages	413,144	342,597	755,741
Operating expenses	162,054	365,105	527,159
Materials and supplies	97,258	68,652	165,910
Depreciation expense	544,196	680,261	1,224,457
Capital outlay	28,963	24,627	53,590
Total operating expenses	<u>1,245,615</u>	<u>1,481,242</u>	<u>2,726,857</u>
OPERATING INCOME (LOSS)	<u>(173,840)</u>	<u>358,857</u>	<u>185,017</u>
Nonoperating revenues (expenses)			
Interest income	1,960	18,811	20,771
Debt service	<u>(200,068)</u>	<u>(309,412)</u>	<u>(509,480)</u>
Total nonoperating revenues (expenses)	<u>(198,108)</u>	<u>(290,601)</u>	<u>(488,709)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(371,948)</u>	<u>68,256</u>	<u>(303,692)</u>
Transfers out	<u>(10,000)</u>	<u>---</u>	<u>(10,000)</u>
CHANGE IN NET POSITION	<u>(381,948)</u>	<u>68,256</u>	<u>(313,692)</u>
Net position, beginning	<u>6,371,513</u>	<u>8,694,662</u>	<u>15,066,175</u>
NET POSITION, ENDING	<u>\$ 5,989,565</u>	<u>\$ 8,762,918</u>	<u>\$ 14,752,483</u>

See notes to financial statements.

**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the year ended June 30, 2014**

	Enterprise Funds		
	Water	Sewer	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,071,019	\$ 1,816,256	\$ 2,887,275
Payments to suppliers	(285,831)	(454,063)	(739,894)
Payments to employees	(381,183)	(317,126)	(698,309)
Net cash provided (used) by operating activities	<u>404,005</u>	<u>1,045,067</u>	<u>1,449,072</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	<u>1,960</u>	<u>18,811</u>	<u>20,771</u>
Net cash used by investing activities	<u>1,960</u>	<u>18,811</u>	<u>20,771</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers (to) from other funds	<u>(10,000)</u>	<u>---</u>	<u>(10,000)</u>
Net cash provided (used) by noncapital financing activities	<u>(10,000)</u>	<u>---</u>	<u>(10,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments for property and equipment	(222,440)	(10,000)	(232,440)
Principal paid on debt	(779,599)	(985,136)	(1,764,735)
Proceeds from issuance of debt	448,608	---	448,608
Interest and fees paid on debt	<u>(203,141)</u>	<u>(319,457)</u>	<u>(522,598)</u>
Net cash used by capital and related financing activities	<u>(756,572)</u>	<u>(1,314,593)</u>	<u>(2,071,165)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(360,607)</u>	<u>(250,715)</u>	<u>(611,322)</u>
Cash and equivalents, beginning	<u>1,003,427</u>	<u>2,627,817</u>	<u>3,631,244</u>
<b>CASH AND EQUIVALENTS, ENDING</b>	<u>\$ 642,820</u>	<u>\$ 2,377,102</u>	<u>\$ 3,019,922</u>
	Water	Sewer	
	Enterprise	Enterprise	Totals
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (173,840)	\$ 358,857	\$ 185,017
Adjustments to reconcile operating income to net cash provided (used ) by operating activities:			
Cash flows reported in other categories			
Depreciation	544,196	680,261	1,224,457
(Increase) decrease in operating assets:			
Accounts receivable	(2,146)	(23,843)	(25,989)
Increase (decrease) in operating liabilities:			
Warrants and other payables	4,234	4,321	8,555
Other post-employment benefit liability	<u>31,561</u>	<u>25,471</u>	<u>57,032</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 404,005</u>	<u>\$ 1,045,067</u>	<u>\$ 1,449,072</u>

See notes to financial statements.



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

**June 30, 2014**

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash	\$ 218,144	\$ 155,769
<b>TOTAL ASSETS</b>	<u>218,144</u>	<u>155,769</u>
<b>LIABILITIES</b>		
Deposits held in custody	---	155,769
<b>TOTAL LIABILITIES</b>	<u>---</u>	<u>155,769</u>
<b>NET POSITION</b>		
Restricted, held in trust	<u>\$ 218,144</u>	<u>\$ ---</u>

See notes to financial statements.

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

**June 30, 2014**

	Private-Purpose Expendable Trust Funds
	<hr/>
ADDITIONS	
Contributions	\$ 13,400
Investment earnings:	
Interest	<hr/> 1,964
TOTAL ADDITIONS	<hr/> 15,364
DEDUCTIONS	
Trust purpose expenditures	<hr/> 25,000
TOTAL DEDUCTIONS	<hr/> 25,000
CHANGE IN NET POSITION	(9,636)
Net position, beginning	<hr/> 227,780
NET POSITION, ENDING	<hr/> \$ 218,144

See notes to financial statements.

**TOWN OF LEE, MASSACHUSETTS****Notes to Financial Statements****June 30, 2014****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 2014, it was determined that no entities met the required governmental accounting standards board criteria for 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 funds account 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 January 23, 2015, the date that the financial statements were available for issue, and has determined that there are no additional adjustments or disclosures required.

### **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 2014 levy was \$881,460,258. A tax rate of \$14.15 per thousand was applied to the levy. Real and personal property taxes are due and payable in two installments on 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, 2014, 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 \$509,480, none of which required capitalization.

Property, plant, and equipment of the primary government is 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:

### *Nonspendable*

Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

### *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 can only be used for specific purposes imposed by majority vote of the Town's governing body (i.e., Town Meeting, the highest level of decision making authority). Any changes or removal of specific purposes requires majority action by the governing board.

### *Assigned*

Amounts constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. These include encumbrances and other amounts which have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year (free cash).

### *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 - 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 and sewer 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	\$ 291,658
Adjustments:	
To reverse the effect of non-budgeted amounts for:	
Less intergovernmental revenue - State contribution to teachers retirement	(2,329,678)
Less education expense - State contribution to teachers retirement	2,329,678
Net effect of encumbrances recorded as budget expenditures	(115,219)
Net effects of stabilization fund: interest income included and transfers eliminated in governmental funds	(208,026)
Plus other sources - revenue appropriation	<u>783,733</u>
Excess of revenues and other sources over expenditures and other uses (budgetary basis)	<u>\$ 752,146</u>

**NOTE 3 - 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, 2014 were \$10,403,079 of which \$9,618,236 was fully insured or collateralized and \$784,843 was uninsured and uncollateralized.

**C. Receivables**

Receivables at June 30, 2014, are as follows:

	Governmental Activities			Total
	General Fund	Nonmajor Funds	Total Governmental Funds	Business-type Activities
Property and excise taxes	\$ 329,012		\$ 329,012	
Tax liens and foreclosures	223,847		223,847	
Accounts receivable		\$ 807,731	807,731	
Water and Sewer			---	\$ 840,115
Allowance for doubtful accounts	(168,130)	(241,800)	(409,930)	(76,353)
Total receivables	<u>\$ 384,729</u>	<u>\$ 565,931</u>	<u>\$ 950,660</u>	<u>\$ 763,762</u>

**D. Capital assets**

Capital assets activity for the year ended June 30, 2014 was as follows:

	<b>Governmental Activities</b>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 2,457,263	\$ ---	\$ ---	\$ 2,457,263
Construction in process	107,416	112,614	(52,317)	167,713
Total capital assets, not being depreciated	<u>2,564,679</u>	<u>112,614</u>	<u>(52,317)</u>	<u>2,624,976</u>
Capital assets, being depreciated:				
Buildings and improvements	29,479,113	77,690	---	29,556,803
Land improvements	1,181,070	---	1,812	1,182,882
Machinery and equipment	6,322,481	221,071	(111,955)	6,431,597
Infrastructure	<u>2,691,477</u>	<u>---</u>	<u>50,505</u>	<u>2,741,982</u>
Total capital assets, being depreciated	<u>39,674,141</u>	<u>298,761</u>	<u>(59,638)</u>	<u>39,913,264</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,442,249)	(721,156)	---	(11,163,405)
Land improvements	(118,108)	(59,061)	---	(177,169)
Machinery and equipment	(4,973,594)	(251,578)	111,955	(5,113,217)
Infrastructure	<u>(953,401)</u>	<u>(118,158)</u>	<u>---</u>	<u>(1,071,559)</u>
Total accumulated depreciation	<u>(16,487,352)</u>	<u>(1,149,953)</u>	<u>111,955</u>	<u>(17,525,350)</u>
Total capital assets, being depreciated, net	<u>23,186,789</u>	<u>(851,192)</u>	<u>52,317</u>	<u>22,387,914</u>
Governmental activities capital assets, net	<u>\$ 25,751,468</u>	<u>\$ (738,578)</u>	<u>\$ ---</u>	<u>\$ 25,012,890</u>
<b>Business-type Activities</b>				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Construction in process	\$ 326,862	\$ 193,948	\$ (12,452)	\$ 508,358
Total capital assets, not being depreciated	<u>326,862</u>	<u>193,948</u>	<u>(12,452)</u>	<u>508,358</u>
Capital assets, being depreciated:				
Buildings and improvements	27,510,189	---	---	27,510,189
Machinery and equipment	2,666,562	10,000	---	2,676,562
Water/sewer infrastructure	<u>23,649,646</u>	<u>28,492</u>	<u>12,452</u>	<u>23,690,590</u>
Total capital assets, being depreciated	<u>53,826,397</u>	<u>38,492</u>	<u>12,452</u>	<u>53,877,341</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,328,502)	(661,635)	---	(5,990,137)
Machinery and equipment	(2,172,170)	(111,591)	---	(2,283,761)
Water/sewer infrastructure	<u>(14,721,266)</u>	<u>(451,231)</u>	<u>---</u>	<u>(15,172,497)</u>
Total accumulated depreciation	<u>(22,221,938)</u>	<u>(1,224,457)</u>	<u>---</u>	<u>(23,446,395)</u>
Total capital assets, being depreciated, net	<u>31,604,459</u>	<u>(1,185,965)</u>	<u>12,452</u>	<u>30,430,946</u>
Business-type activities capital assets, net	<u>\$ 31,931,321</u>	<u>\$ (992,017)</u>	<u>\$ ---</u>	<u>\$ 30,939,304</u>

**D. Capital assets (continued)**

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

**Governmental activities**

General government	\$	79,855
Public safety		103,063
Education		720,428
Public works		166,214
Health and human services		18,198
Cultural and recreation		62,195
Total depreciation expense, governmental activities	\$	<u>1,149,953</u>

**Business-type activities**

Water	\$	544,196
Sewer		680,261
Total depreciation expense, business-type activities	\$	<u>1,224,457</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:

	Serial Maturity Through	Interest Rates %	Outstanding June 30, 2013	Additions	Reductions	Outstanding June 30, 2014
<b>Governmental activities</b>						
Elementary school	2023	2.0 to 3.0	\$ 7,750,000	\$ ---	\$ 685,000	\$ 7,065,000
High school	2021	3.0 to 5.0	<u>1,805,000</u>	<u>---</u>	<u>215,000</u>	<u>1,590,000</u>
Total governmental activities			<u>9,555,000</u>	<u>---</u>	<u>900,000</u>	<u>8,655,000</u>
<b>Business-type activities</b>						
Water treatment plant	2035	4.50%	1,259,750	---	34,738	1,225,012
Water treatment plant	2036	4.50%	235,799	---	6,061	229,738
Water treatment plant	2037	4.50%	2,944,447	---	70,700	2,873,747
Water tank	2016	2.00%	45,000	---	15,000	30,000
Sewer plant	2027	2.00%	15,517,840	---	970,136	14,547,704
Water distribution system	2014	0.50%	668,100	---	668,100	---
Water distribution system	2015	0.50%	<u>---</u>	<u>448,608</u>	<u>---</u>	<u>448,608</u>
Total business-type activities			<u>20,670,936</u>	<u>448,608</u>	<u>1,764,735</u>	<u>19,354,809</u>
Total			<u>\$ 30,225,936</u>	<u>\$ 448,608</u>	<u>\$2,664,735</u>	<u>\$ 28,009,809</u>

**E. Long-term debt (continued)**

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
2015	\$ 1,110,000	\$ 233,200	\$ 1,343,200	\$ 1,569,857	\$ 478,425	\$ 2,048,282
2016	945,000	208,350	1,153,350	1,146,488	450,601	1,597,089
2017	965,000	182,450	1,147,450	1,157,365	424,724	1,582,089
2018	985,000	155,850	1,140,850	1,183,902	398,187	1,582,089
2019	1,010,000	131,000	1,141,000	1,211,117	370,973	1,582,090
2020 - 2024	3,640,000	218,950	3,858,950	6,488,983	1,421,468	7,910,451
2025 - 2029	---	---	---	4,690,281	678,587	5,368,868
2030 - 2034	---	---	---	1,233,605	322,890	1,556,495
2035 - 2037	---	---	---	673,211	56,626	729,837
Total	<u>\$ 8,655,000</u>	<u>\$ 1,129,800</u>	<u>\$ 9,784,800</u>	<u>\$ 19,354,809</u>	<u>\$4,602,481</u>	<u>\$ 23,957,290</u>

On October 15, 2013, the Town refinanced the Elementary School bonds due in 2023. As part of the refinancing the Town received a reoffering premium, net of underwriter's discounts, which is reported as unamortized bond premium in the government-wide statement of net position. This premium is amortized over the remaining life of the debt, to be fully amortized by 2023. The balance of the unamortized premium as of June 30, 2014 is \$321,508.

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 \$881,460,258 and the 5% normal debt limit available borrowing balance was \$44,073,000 at June 30, 2014. The Town's outstanding debt of \$28,009,809 reduced by \$27,561,201 of debt outside the limit for the school and water and sewer facilities, results in \$448,608 of inside the limit debt outstanding. The Town's inside the limit debt available balance is \$43,624,392.

**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, 2014 were \$448,608 (see Page 24). The Town has no other short-term anticipation notes outstanding at June 30, 2014.



**G. Capital and operating leases**

The Town is a lessee of certain assets under operating leases expiring at various times through fiscal year 2015. The operating lease assets are expensed. The leases have been issued for governmental activities.

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

	<u>Operating Leases</u>
Fiscal year 2015	\$ <u>24,193</u>

**H. Restricted fund balance on June 30, 2014**

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Restricted:			
Debt service	\$ 348,881		\$ 348,881
Special purposes		\$ 1,499,844	1,499,844
Expendable trust funds		301,643	301,643
Nonexpendable trust funds		<u>192,420</u>	<u>192,420</u>
Total restricted fund net assets	<u>\$ 348,881</u>	<u>\$ 1,993,907</u>	<u>\$ 2,342,788</u>

**NOTE 4 - 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 June 30, 2014
Annual Required Contribution (ARC)	\$ 2,120,966
Interest on net OPEB obligation	302,815
Adjustment to ARC	(257,452)
Annual OPEB cost (expense)	2,166,329
Contributions made	969,752
Increase in net OPEB obligation	1,196,577
Net OPEB obligation, beginning of year	6,375,051
Net OPEB obligation, end of year	<u>\$ 7,571,628</u>

#### Net OPEB Obligation by segment

Water Fund	\$ 192,505
Sewer Fund	161,687
Other Town and school funds	7,217,436
Total	<u>\$ 7,571,628</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 Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Pay
6/30/2012	\$ 2,285,150	39.87%	\$ 5,235,521	\$ 9,946,900	22.97%
6/30/2013	\$ 2,056,626	44.59%	\$ 6,375,051	\$ 9,876,400	20.82%
6/30/2014	\$ 2,166,329	44.76%	\$ 7,571,628	\$ 10,430,863	20.77%

## 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 30.

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	7.5% in 2014 decreasing by 0.5% for years 5 to an 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, 2014 was \$4,453,100. The Town’s contribution to the Retirement System for 2014 was made in accordance with the funding policy described above and was funded as follows: The Town contributed \$689,858 (15.5% of current covered payroll); employees contributed \$380,680 (8.5% 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, 2014 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 Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 683,335	100%	\$0
2013	\$ 790,203	100%	\$0
2014	\$ 689,858	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 2014, the Commonwealth contributed \$2,329,678 which is included in the Town's education expenditures and intergovernmental revenues in the general fund.

### E. 2015 Budget

The Town has authorized a fiscal 2015 operating and capital budget which will be financed from the following sources:

Taxation	\$ 12,802,092
Local receipts	1,770,482
State payments	3,863,349
Enterprise fund receipts	3,343,956
Revenue sources appropriated from free cash	783,733
Revenue sources appropriated from other sources	<u>933,837</u>
Total budget	<u>\$ 23,497,449</u>

**TOWN OF LEE, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF PENSION FUNDING PROGRESS**  
**(Unaudited)**

**Other Post-employment Benefits Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (AAL) ((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%	\$ 9,946,900	255.34%

**Trust Fund**

The Town has adopted Massachusetts General Law Chapter 32B, Section 20, which authorized the establishment of a separate fund, known as the Other Post-Employment Benefits Liability Trust Fund (local chapter), and other provisions as outlined in said statute. Accordingly, the Town has deposited \$288,205 into the Trust Fund which reduces the unfunded actuarial accrued liability (UAAL) by the same amount. The activity in the Trust Fund for the fiscal year 2014 is as follows:

Balance at June 30, 2013	\$ 191,359
Deposits	96,241
Interest income	<u>605</u>
Balance at June 30, 2014	<u>\$ 288,205</u>



# Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

Richard F. LaFleche, CPA  
 Vincent T. Viscuso, CPA  
 Gary J. Moynihan, CPA  
 Carol Leibinger-Healey, CPA  
 David M. Irwin, Jr., CPA

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of Town of Lee, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Lee's basic financial statements, and have issued our report thereon dated January 23, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Lee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Lee's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Lee's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Lee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Adelson + Company PC*  
ADELSON & COMPANY PC

January 23, 2015

