

TOWN OF LEE, MASSACHUSETTS

**Financial Statements and
Supplementary Information**

June 30, 2019

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TOWN OF LEE, MASSACHUSETTS

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Gary J. Moynihan, CPA
 Carol J. Leibinger-Healey, CPA
 David M. Irwin, Jr., CPA
 Allison L. Bedard, CPA
 Of Counsel:
 Richard F. LaFleche, CPA
 Vincent T. Viscuso, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen of
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, 2019, and the related notes to the financial statements, which collectively comprise the Town of Lee, Massachusetts' 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, Massachusetts as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 5, the Schedule of Changes in Net Other Postemployment Benefits (OPEB) Liability and Related Ratios and Schedule of OPEB Contributions on pages 36 and 37, and the Schedule of Proportionate Share of Net Pension Liability and Pension Contributions on page 38, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 22, 2020 on our consideration of the Town of Lee, Massachusetts' 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 solely 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 effectiveness of the Town of Lee, Massachusetts' 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, Massachusetts' internal control over financial reporting and compliance.

Adelson + Company PC

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January 22, 2020

TOWN OF LEE, MASSACHUSETTS

Management's Discussion and Analysis

For the Year Ended June 30, 2019

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, 2019. 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

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 6 and 7 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 11 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 8 and 9 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 12 to 14 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 Town has an *Other Post Employment Benefits (OPEB) Trust Fund*, which is used to account for the assets held by the Town in trust for the payment of future retiree health insurance benefits. The assets of the OPEB Trust Fund cannot be used to support the Town's operations.

The fiduciary fund financial statements can be found on pages 15 and 16 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 17 to 38 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 \$17,835,153 at the close of the most recent fiscal year. This represents an increase in net position over the prior fiscal year of \$3,743,863.

TOWN OF LEE, MASSACHUSETTS SUMMARY STATEMENT OF NET POSITION

	2019			2018	Increase (Decrease)
	Governmental Activities	Business-type Activities	Totals	Totals	Totals
Cash and cash equivalents	\$ 8,698,479	\$ 3,238,781	\$ 11,937,260	\$ 11,110,272	\$ 826,988
Cash - restricted	209,611	---	209,611	207,873	1,738
Receivables and other current assets	1,116,009	934,230	2,050,239	1,829,617	220,622
Capital assets, net	25,631,845	25,639,010	51,270,855	52,555,827	(1,284,972)
Deferred outflows related to pensions	1,604,201	99,375	1,703,576	1,202,152	501,424
Deferred outflows related to postemployment benefits	593,577	29,252	622,829	823,934	(201,105)
TOTAL ASSETS AND DEFERRED OUTFLOWS	37,853,722	29,940,648	67,794,370	67,729,675	64,695
Current liabilities	483,255	240,792	724,047	821,319	(97,272)
Long-term debt and related liabilities	4,691,100	13,086,076	17,777,176	19,559,783	(1,782,607)
Net pension liability	4,097,558	298,714	4,396,272	2,675,786	1,720,486
Postemployment benefits other than pensions	22,159,685	1,092,062	23,251,747	24,398,002	(1,146,255)
Deferred inflows related to pensions	57,446	3,558	61,004	1,184,867	(1,123,863)
Deferred inflows related to postemployment benefits	3,572,894	176,077	3,748,971	4,998,628	(1,249,657)
TOTAL LIABILITIES AND DEFERRED INFLOWS	35,061,938	14,897,279	49,959,217	53,638,385	(3,679,168)
Invested in capital assets, net of related debt	21,061,312	12,552,934	33,614,246	33,156,800	457,446
Restricted	3,399,638	---	3,399,638	2,615,010	784,628
Unrestricted	(21,669,166)	2,490,435	(19,178,731)	(21,680,520)	2,501,789
TOTAL NET POSITION	\$ 2,791,784	\$ 15,043,369	\$ 17,835,153	\$ 14,091,290	\$ 3,743,863

Net position of \$33,614,246 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.

The reader should also note that, unlike Massachusetts Municipal Accounting, GASB requires inclusion of certain long-term assets and liabilities in its government-wide statement of net position:

- All infrastructures (such as roads, buildings and land)
- Long-term debt

- The Town is required to measure and report a long-term projected benefit obligation associated with postemployment benefits (or OPEB) earned by employees for services rendered to date, as opposed to when the benefit is actually paid.
- The Town is required to report a long-term projected benefit obligation for its proportionate share of the Berkshire County Contributory Retirement System's net pension liability.

As a result, the recognition of such long-term assets and obligations has a significant impact on the Town's government-wide net position.

Statement of Activities

The Statement of Activities reflects total operating expenses for the Town as \$25,252,388 for all activities. Revenues totaled \$28,996,251 for all activities. The net change result of \$3,743,863 is an increase in net position.

TOWN OF LEE, MASSACHUSETTS SUMMARY STATEMENT OF ACTIVITIES

	2019			2018	Increase
	Governmental Activities	Business-type Activities	Total Activities	Totals	(Decrease)
Revenues					
Taxes	\$ 15,239,198		\$ 15,239,198	\$ 14,971,512	\$ 267,686
Charges for services	2,855,127	\$ 3,396,200	6,251,327	6,036,221	215,106
Grants and contributions	7,125,549		7,125,549	7,889,637	(764,088)
Penalties and fines	75,019		75,019	69,470	5,549
Interest income	68,214	32,870	101,084	70,018	31,066
Other revenues	204,074		204,074	233,958	(29,884)
Total revenues	<u>25,567,181</u>	<u>3,429,070</u>	<u>28,996,251</u>	<u>29,270,816</u>	<u>(274,565)</u>
Expenses					
General government	1,175,499		1,175,499	1,750,002	(574,503)
Public safety	2,469,364		2,469,364	1,689,369	779,995
Education	13,547,168		13,547,168	13,077,877	469,291
Public works	1,383,686		1,383,686	1,552,935	(169,249)
Health and human services	690,366		690,366	595,639	94,727
Cultural and recreation	407,540		407,540	409,092	(1,552)
Employee benefits	1,952,692		1,952,692	3,945,013	(1,992,321)
Intergovernmental assessments	709,191		709,191	696,232	12,959
Water and Sewer		2,478,162	2,478,162	2,609,991	(131,829)
Interest and fiscal charges	98,231	340,489	438,720	479,751	(41,031)
Total expenses	<u>22,433,737</u>	<u>2,818,651</u>	<u>25,252,388</u>	<u>26,805,901</u>	<u>(1,553,513)</u>
Change in net position	3,133,444	610,419	3,743,863	2,464,915	1,278,948
Net position, beginning	<u>(341,660)</u>	<u>14,432,950</u>	<u>14,091,290</u>	<u>11,626,375</u>	<u>2,464,915</u>
Net position, ending	<u>\$ 2,791,784</u>	<u>\$ 15,043,369</u>	<u>\$ 17,835,153</u>	<u>\$ 14,091,290</u>	<u>\$ 3,743,863</u>

Governmental activities net position increased by \$3,133,444 in fiscal year 2019. The key elements of this increase are as follows:

- The Town recorded a decrease in its other postemployment benefits liability of \$2,071,726, net of deferred outflows and inflows of resources related to other postemployment benefits.
- The Town recorded an increase in its net pension liability of \$89,492, net of deferred outflows and inflows of resources related to pensions.
- The Town capitalized fixed assets of \$1,023,984 and recorded depreciation expense of \$1,396,259.
- The Town issued debt of \$930,533 and made principal debt payments of \$1,430,799.

Property Taxes

Property tax revenues recorded for the fiscal year ended June 30, 2019 reflects an increase in the Town's residential and commercial tax rate to \$14.78 from the prior fiscal year. The tax rates and valuation data over the four previous fiscal years are as follows:

	2019	2018	2017	2016
Real and personal property valuation	\$ 938,298,092	\$ 925,395,969	\$ 912,719,473	\$ 912,378,464
Tax levy	\$ 13,868,046	\$ 13,538,543	\$ 13,435,231	\$ 13,284,230
Property tax rates (per thousand)	\$ 14.78	\$ 14.63	\$ 14.72	\$ 14.56

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 \$8,539,884. Of this amount, \$6,547,968 is restricted, committed and assigned for specific purposes such as capital projects, community preservation, encumbrances, and reducing free cash to help reduce the tax rate. This leaves an unassigned governmental fund balance of \$1,991,916 for the general fund.

The governmental fund activities for fiscal year 2019 resulted in an increase in net fund balance of \$767,407. Key elements of this change are as follows:

- Total revenues were \$25,355,752.
- Total expenses were \$25,518,878.
- Included in the expenses is capital outlay of \$1,023,984. These amounts are budgeted as expenses in the general fund but are capitalized on the government-wide statement of net position.

- The Town issued bonds of \$930,533 to replace a school boiler, two highway department trucks, and to cover costs of road paving projects.
- Also included in the expenses is debt service of \$1,573,413 (\$1,430,799 principal repayment and \$142,614 interest expense). These amounts are budgeted as expenses in the general fund but the principal repayment of \$1,430,799 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 \$15,043,369. Of this amount, \$12,552,934 is invested in capital assets which is net of any related debt used to acquire or construct those assets, and \$2,490,435 is unrestricted which can be used to meet the financial needs of ongoing operations.

The enterprise activities for the fiscal year 2019 resulted in an increase in net position of \$610,419. Key elements of this change are as follows:

- Operating revenues were \$3,396,200.
- Operating expenses were \$2,478,162.
- Included in operating expenses is depreciation expense of \$1,091,959.
- Also included in operating expenses is other post-employment benefits (OPEB) expense (reduction) of (\$123,081). The details of the OPEB can be found on pages 27 - 30 and 36 - 37 of this report.
- Interest expense and fiscal charges on long-term debt was \$340,489. Principal repayment of long-term debt, which is reported on the statement of net position, was \$1,242,152.

The enterprise fund statements can be found on pages 12 to 14 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 11 of this report.

- The Town reported an unfavorable budget variance of \$97,774 for property tax revenue. The Town's budgeted property tax revenue of \$13,599,556 is based upon taxes levied less estimated abatements and exemptions. The actual property tax revenue received of \$13,501,782 is based upon actual collections received (resources available). The unfavorable variance is a result of timing of collections and actual abatements and exemptions provided. It is important to note that the Town, as of June 30, 2019, collected 97% of the real estate taxes committed for fiscal year 2019.
- The Town reported a favorable budget variance of \$314,290 for collection of excise and other taxes. Specifically, the favorable variance primarily consists of \$90,460 excise tax above budget, \$80,132 room tax above budget, \$21,334 meals tax above budget, and \$122,364 in other taxes above the budget.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets as of June 30, 2019, amounts to \$51,270,855 (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	143,497	\$ 117,177	260,674
Buildings and improvements	15,977,855	18,214,473	34,192,328
Land improvements	65,297		65,297
Machinery and equipment	1,669,676	205,985	1,875,661
Infrastructure	5,318,257	7,101,375	12,419,632
Total	<u>\$ 25,631,845</u>	<u>\$ 25,639,010</u>	<u>\$ 51,270,855</u>
Current year additions:			
School equipment	\$ 32,191		\$ 32,191
Library purchases	76,005		76,005
Ambulance building doors	25,124		25,124
2018 Ford F350	40,774		40,774
John Deere commercial mower	15,010		15,010
2017 Ford Interceptor police vehicle	38,611		38,611
Sidewalk plow	88,081		88,081
Water and sewer equipment		\$ 111,019	111,019
Infrastructure improvements	708,188	68,243	776,431
Total	<u>\$ 1,023,984</u>	<u>\$ 179,262</u>	<u>\$ 1,203,246</u>

Additional information on the Town's capital assets can be found on page 24 and 25 of this report.

Long-term debt

At the end of the current fiscal year, the Town had total debt outstanding of \$17,656,609. 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, 2019

	Governmental Activities	Business-type Activities	Total
Elementary school	\$ 3,250,000		\$ 3,250,000
High school	390,000		390,000
High school boiler	79,727		79,727
Highway department trucks	289,056		289,056
Highway road paving	561,750		561,750
Water treatment plant (multiple bonds)		\$ 3,691,069	3,691,069
Sewer plant		9,395,007	9,395,007
Total	<u>\$ 4,570,533</u>	<u>\$ 13,086,076</u>	<u>\$ 17,656,609</u>

Additional information on the Town's long-term debt 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 2020 operating and capital budget can be found on page 35 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, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current:			
Cash and cash equivalents	\$ 8,698,479	\$ 3,238,781	\$ 11,937,260
Receivables, net	1,116,009	929,595	2,045,604
Other assets		4,635	4,635
Cash - restricted	209,611		209,611
Noncurrent:			
Capital assets, net	25,631,845	25,639,010	51,270,855
TOTAL ASSETS	35,655,944	29,812,021	65,467,965
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	1,604,201	99,375	1,703,576
Deferred outflows related to other postemployment benefits	593,577	29,252	622,829
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	37,853,722	29,940,648	67,794,370
LIABILITIES			
Current:			
Warrants and other payables	195,059	47,542	242,601
Payroll and related liabilities	277,140	3,290	280,430
Accrued interest payable	11,056	189,960	201,016
Current portion of long-term debt	1,980,533	1,239,031	3,219,564
Noncurrent:			
Long-term debt, net of current portion	2,590,000	11,847,045	14,437,045
Unamortized bond premium	120,567		120,567
Net pension liability	4,097,558	298,714	4,396,272
Postemployment benefits other than pensions	22,159,685	1,092,062	23,251,747
TOTAL LIABILITIES	31,431,598	14,717,644	46,149,242
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	57,446	3,558	61,004
Deferred inflows related to other postemployment benefits	3,572,894	176,077	3,748,971
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	35,061,938	14,897,279	49,959,217
NET POSITION			
Invested in capital assets, net of related debt	21,061,312	12,552,934	33,614,246
Restricted for			
Special revenue funds	2,675,431		2,675,431
Capital project funds	514,596		514,596
Expendable trust funds	17,261		17,261
Nonexpendable trust funds	192,350		192,350
Unrestricted	(21,669,166)	2,490,435	(19,178,731)
TOTAL NET POSITION	\$ 2,791,784	\$ 15,043,369	\$ 17,835,153

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
	Expenses				Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 1,175,499	\$ 103,535	\$ 244,742		\$ (827,222)		\$ (827,222)
Public safety	2,469,364	876,700			(1,592,664)		(1,592,664)
Education	13,547,168	1,410,727	5,338,484		(6,797,957)		(6,797,957)
Public works	1,383,686	135,183	93,080	\$ 596,167	(559,256)		(559,256)
Health and human services	690,366	318,302	196,438		(175,626)		(175,626)
Cultural and recreation	407,540	10,680	12,712		(384,148)		(384,148)
Employee benefits	1,952,692				(1,952,692)		(1,952,692)
Intergovernmental assessments	709,191				(709,191)		(709,191)
Interest and fiscal charges	98,231				(98,231)		(98,231)
Total governmental activities	<u>22,433,737</u>	<u>2,855,127</u>	<u>5,885,456</u>	<u>596,167</u>	<u>(13,096,987)</u>		<u>(13,096,987)</u>
Business type activities							
Water	1,319,985	1,243,694				\$ (76,291)	(76,291)
Sewer	<u>1,498,666</u>	<u>2,152,506</u>				<u>653,840</u>	<u>653,840</u>
Total business type activities	<u>2,818,651</u>	<u>3,396,200</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>577,549</u>	<u>577,549</u>
Total all activities	<u>\$ 25,252,388</u>	<u>\$ 6,251,327</u>	<u>\$ 5,885,456</u>	<u>\$ 596,167</u>	<u>(13,096,987)</u>	<u>577,549</u>	<u>(12,519,438)</u>
General revenues:							
Taxes					15,239,198		15,239,198
Grants and contributions not restricted to specific programs					643,926		643,926
Penalties and fines					75,019		75,019
Interest income					68,214	32,870	101,084
Other revenues					<u>204,074</u>		<u>204,074</u>
Total general revenues					<u>16,230,431</u>	<u>32,870</u>	<u>16,263,301</u>
CHANGE IN NET POSITION					3,133,444	610,419	3,743,863
Net position, beginning					<u>(341,660)</u>	<u>14,432,950</u>	<u>14,091,290</u>
NET POSITION, ENDING					<u>\$ 2,791,784</u>	<u>\$ 15,043,369</u>	<u>\$ 17,835,153</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2019

	General	Other Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,479,362	\$ 3,219,117	\$ 8,698,479
Receivables	1,112,010	3,999	1,116,009
Cash - restricted		209,611	209,611
TOTAL ASSETS	<u>\$ 6,591,372</u>	<u>\$ 3,432,727</u>	<u>\$ 10,024,099</u>
LIABILITIES			
Warrants and other payables	\$ 168,797	\$ 26,262	\$ 195,059
Payroll and related liabilities	274,312	2,828	277,140
TOTAL LIABILITIES	<u>443,109</u>	<u>29,090</u>	<u>472,199</u>
DEFERRED INFLOWS OF RESOURCES			
Revenue not considered available	<u>1,008,017</u>	<u>3,999</u>	<u>1,012,016</u>
FUND BALANCES			
Restricted	163,830	3,399,638	3,563,468
Committed	297,471		297,471
Assigned	2,687,029		2,687,029
Unassigned	<u>1,991,916</u>		<u>1,991,916</u>
TOTAL FUND BALANCES	<u>5,140,246</u>	<u>3,399,638</u>	<u>8,539,884</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 6,591,372</u>	<u>\$ 3,432,727</u>	

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	25,631,845
Accrued interest on outstanding debt is recorded on the statement of net position, whereas in the governmental funds, interest is not reported until due	(11,056)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(4,691,100)
Net pension liability	(2,550,803)
Postemployment benefits other than pensions	(25,139,002)
Revenues are reported on the accrual basis of accounting and not deferred	<u>1,012,016</u>

Net position of governmental activities	<u>\$ 2,791,784</u>
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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, 2019

	General	Other Nonmajor Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 13,498,479		\$ 13,498,479
Excise and other taxes	1,529,290		1,529,290
Licenses and permits	24,489		24,489
Charges for services	1,270,191	\$ 1,560,447	2,830,638
Penalties and fines	75,019		75,019
Intergovernmental	5,577,933	1,547,616	7,125,549
Interest income	60,592	7,622	68,214
Other revenues	31,632	172,442	204,074
TOTAL REVENUES	<u>22,067,625</u>	<u>3,288,127</u>	<u>25,355,752</u>
EXPENDITURES			
General government	1,095,015	25,725	1,120,740
Public safety	2,289,941	7,310	2,297,251
Education	10,998,509	1,984,649	12,983,158
Public works	1,033,642	777,037	1,810,679
Health and human services	155,649	509,959	665,608
Cultural and recreation	398,393	25,519	423,912
Employee benefits	3,934,926		3,934,926
Intergovernmental assessments	709,191		709,191
Debt service:			
Principal retirement	1,010,000	420,799	1,430,799
Interest and fiscal charges	133,500	9,114	142,614
TOTAL EXPENDITURES	<u>21,758,766</u>	<u>3,760,112</u>	<u>25,518,878</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>308,859</u>	<u>(471,985)</u>	<u>(163,126)</u>
OTHER FINANCING SOURCES (USES)			
Other financing sources - bond proceeds		930,533	930,533
Transfers in	17,891	349,841	367,732
Transfers out	(343,971)	(23,761)	(367,732)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(326,080)</u>	<u>1,256,613</u>	<u>930,533</u>
NET CHANGE IN FUND BALANCES	(17,221)	784,628	767,407
Fund balances, beginning	<u>5,157,467</u>	<u>2,615,010</u>	<u>7,772,477</u>
FUND BALANCES, ENDING	<u>\$ 5,140,246</u>	<u>\$ 3,399,638</u>	<u>\$ 8,539,884</u>

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, 2019

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 767,407
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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	1,023,984
Depreciation expense	(1,396,259)

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 deferred inflows of resources - revenue not considered available

211,429

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:

Issuance of long-term debt	(930,533)
Debt principal payments	1,430,799

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

Decrease in unamortized bond premium	40,189
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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	4,194
Increase in net pension liability, net of deferred inflows and outflows	(89,492)
Decrease in postemployment benefits other than pensions, net of deferred inflows and outflows	2,071,726

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>3,133,444</u>
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TOWN OF LEE, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS) - GENERAL FUNDS

For the Year Ended June 30, 2019

	General Fund			
	Budget		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 13,599,556	\$ 13,599,556	\$ 13,501,782	\$ (97,774)
Excise and other taxes	1,215,000	1,215,000	1,529,290	314,290
Licenses and permits	22,000	22,000	24,489	2,489
Charges for services	1,363,989	1,363,989	1,270,191	(93,798)
Penalties and fines	69,660	69,660	75,019	5,359
Intergovernmental	3,465,995	3,465,995	3,551,997	86,002
Interest income	30,000	30,000	49,924	19,924
Other revenues	5,000	5,000	31,632	26,632
TOTAL REVENUES	<u>19,771,200</u>	<u>19,771,200</u>	<u>20,034,324</u>	<u>263,124</u>
EXPENDITURES				
General government	1,116,130	1,116,130	1,075,598	40,532
Public safety	2,516,470	2,516,470	2,467,476	48,994
Education	8,981,310	8,981,310	8,972,573	8,737
Public works	1,906,327	1,906,327	1,830,152	76,175
Health and human services	284,984	284,984	215,982	69,002
Culture and recreation	441,459	441,459	436,101	5,358
Employee benefits	4,019,269	4,019,269	3,934,926	84,343
Intergovernmental assessments	702,476	702,476	709,191	(6,715)
Debt service:				
Principal retirement	1,010,000	1,010,000	1,010,000	---
Interest and fiscal charges	133,500	133,500	133,500	---
TOTAL EXPENDITURES	<u>21,111,925</u>	<u>21,111,925</u>	<u>20,785,499</u>	<u>326,426</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,340,725)</u>	<u>(1,340,725)</u>	<u>(751,175)</u>	<u>589,550</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	---	---	17,891	17,891
Transfers out	(493,971)	(493,971)	(493,971)	---
Revenue appropriation	1,834,696	1,834,696	1,834,696	---
TOTAL OTHER FINANCING SOURCES	<u>1,340,725</u>	<u>1,340,725</u>	<u>1,358,616</u>	<u>17,891</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 607,441</u>	<u>\$ 607,441</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2019

	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,017,086	\$ 2,221,695	\$ 3,238,781
Accounts receivable from customers (net of allowance for uncollectibles)	343,958	585,637	929,595
Tax liens and foreclosures	2,768	1,867	4,635
Total current assets	1,363,812	2,809,199	4,173,011
Capital assets, net	7,906,843	17,732,167	25,639,010
TOTAL ASSETS	9,270,655	20,541,366	29,812,021
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	56,786	42,589	99,375
Deferred outflows related to other postemployment benefits	10,354	18,898	29,252
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	9,337,795	20,602,853	29,940,648
LIABILITIES			
Current liabilities			
Warrants and other payables	18,758	28,784	47,542
Payroll and related liabilities	2,628	662	3,290
Accrued interest	101,479	88,481	189,960
Current portion of long-term debt	145,201	1,093,830	1,239,031
Noncurrent liabilities			
Long-term debt, net of current portion	3,545,868	8,301,177	11,847,045
Net pension liability	156,526	142,188	298,714
Postemployment benefits other than pensions	386,540	705,522	1,092,062
TOTAL LIABILITIES	4,357,000	10,360,644	14,717,644
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	2,033	1,525	3,558
Deferred inflows related to other postemployment benefits	62,323	113,754	176,077
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,421,356	10,475,923	14,897,279
NET POSITION			
Invested in capital assets, net of related debt	4,215,774	8,337,160	12,552,934
Unrestricted	700,665	1,789,770	2,490,435
TOTAL NET POSITION	\$ 4,916,439	\$ 10,126,930	\$ 15,043,369

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, 2019

	Enterprise Funds		
	Water	Sewer	Total
Operating revenues			
Charges for services	\$ 1,236,537	\$ 2,152,506	\$ 3,389,043
Other revenue	7,157	---	7,157
Total operating revenues	<u>1,243,694</u>	<u>2,152,506</u>	<u>3,396,200</u>
Operating expenses			
Salaries and wages	378,369	175,669	554,038
Operating expenses	91,817	377,098	468,915
Materials and supplies	102,064	74,894	176,958
Depreciation expense	423,643	668,316	1,091,959
Capital outlay - small equipment purchases	186,292	---	186,292
Total operating expenses	<u>1,182,185</u>	<u>1,295,977</u>	<u>2,478,162</u>
OPERATING INCOME (LOSS)	<u>61,509</u>	<u>856,529</u>	<u>918,038</u>
Nonoperating revenues (expenses)			
Interest income	12,066	20,804	32,870
Interest and fiscal charges	(137,800)	(202,689)	(340,489)
Total nonoperating revenues (expenses)	<u>(125,734)</u>	<u>(181,885)</u>	<u>(307,619)</u>
CHANGE IN NET POSITION	(64,225)	674,644	610,419
Net position, beginning	<u>4,980,664</u>	<u>9,452,286</u>	<u>14,432,950</u>
NET POSITION, ENDING	<u>\$ 4,916,439</u>	<u>\$ 10,126,930</u>	<u>\$ 15,043,369</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2019

	Enterprise Funds		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,235,756	\$ 2,109,084	\$ 3,344,840
Payments to suppliers	(368,515)	(444,701)	(813,216)
Payments to employees	(417,408)	(257,445)	(674,853)
Net cash provided (used) by operating activities	449,833	1,406,938	1,856,771
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	12,066	20,804	32,870
Net cash provided (used) by investing activities	12,066	20,804	32,870
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for property and equipment	(52,162)	(127,100)	(179,262)
Principal paid on debt	(169,983)	(1,072,169)	(1,242,152)
Interest and fees paid on debt	(142,248)	(213,519)	(355,767)
Net cash provided (used) by capital and related financing activities	(364,393)	(1,412,788)	(1,777,181)
INCREASE IN CASH AND CASH EQUIVALENTS	97,506	14,954	112,460
Cash and equivalents, beginning	919,580	2,206,741	3,126,321
CASH AND EQUIVALENTS, ENDING	<u>\$ 1,017,086</u>	<u>\$ 2,221,695</u>	<u>\$ 3,238,781</u>
	Water	Sewer	
	Enterprise	Enterprise	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 61,509	\$ 856,529	\$ 918,038
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Cash flows reported in other categories			
Depreciation	423,643	668,316	1,091,959
(Increase) decrease in operating assets:			
Accounts receivable	(7,938)	(43,422)	(51,360)
Increase (decrease) in operating liabilities:			
Warrants and other payables	10,876	4,632	15,508
Net pension liability	3,178	2,529	5,707
Postemployment benefits other than pensions	(41,435)	(81,646)	(123,081)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 449,833</u>	<u>\$ 1,406,938</u>	<u>\$ 1,856,771</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2019

	Private-Purpose Expendable Trust Funds	Other Post Employment Benefits Trust Fund	Total	Agency Funds
ASSETS				
Cash and cash equivalents	\$ 185,602	\$ 471,997	\$ 657,599	\$ 54,166
TOTAL ASSETS	<u>185,602</u>	<u>471,997</u>	<u>657,599</u>	<u>54,166</u>
LIABILITIES				
Deposits held in custody	---	---	---	54,166
TOTAL LIABILITIES	<u>---</u>	<u>---</u>	<u>---</u>	<u>54,166</u>
NET POSITION				
Restricted, held in trust	<u>\$ 185,602</u>	<u>\$ 471,997</u>	<u>\$ 657,599</u>	<u>\$ ---</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2019

	Private-Purpose Expendable Trust Funds	Other Post Employment Benefits Trust Fund	Total
ADDITIONS			
Contributions	\$ 4,734	\$ ---	\$ 4,734
Investment earnings:			
Interest and dividends	---	18,000	18,000
Realized gains (losses)		(2,193)	(2,193)
Net increase (decrease) in fair value of investments	---	8,409	8,409
TOTAL ADDITIONS	<u>4,734</u>	<u>24,216</u>	<u>28,950</u>
DEDUCTIONS			
Trust purpose expenditures	46,278	---	46,278
Benefits	---	---	---
TOTAL DEDUCTIONS	<u>46,278</u>	<u>---</u>	<u>46,278</u>
CHANGE IN NET POSITION	(41,544)	24,216	(17,328)
Net position, beginning	<u>227,146</u>	<u>447,781</u>	<u>674,927</u>
NET POSITION, ENDING	<u>\$ 185,602</u>	<u>\$ 471,997</u>	<u>\$ 657,599</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

Notes to Financial Statements

June 30, 2019

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. Effective July 1, 2017, the Town entered into an intermunicipal agreement with the Town of Lenox, Massachusetts to share the services of a single Town Administrator. The agreement was extended by the Towns through June 30, 2020. 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 2019, 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 are recorded in the year levied as receivables and deferred inflows of resources. Property taxes collected up to 60 days after the fiscal year end are included in the current fiscal year revenues with the remaining recognized as revenues in the succeeding year when services financed by the levy are provided. Intergovernmental aids and grants are recognized as revenues in the period the Town is entitled to the resources and the amounts are available. Amounts owed to the Town which are not available are recorded as receivables and deferred inflows of resources. Amounts received prior to the entitlement period are also recorded as deferred inflows of resources.

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 Funds:

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

Other Post Employment Benefits (OPEB) Trust Fund is used to account for the assets held by the Town in trust for the payment of future retiree health insurance benefits. The assets of the OPEB Trust Fund cannot be used to support the Town's operations.

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 22, 2020, 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 2019 levy was \$938,298,092. A tax rate of \$14.78 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. For fiscal year 2019, the Town’s tax levy was \$13,868,046, which was below both its levy limit of \$16,574,255 (levy limit of \$15,986,619 plus debt exclusions of \$587,636) and levy ceiling of \$23,457,452.

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 which reflect costs applicable to future accounting periods are recorded as prepaid items in the 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 \$340,489, 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

With the exception of the Lee Police Department, it is the Town's policy not to permit employees to accumulate earned but unused sick and vacation pay benefits beyond June 30. The Lee Police Association agreement allows department employees to accumulate sick time up to 180 days. Employees that meet certain criteria may be compensated for up to 10% of this accumulated time upon retirement. This amount is immaterial and, accordingly, no liability is 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 restricted, committed, or assigned fund balance in the accompanying balance sheet. 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 the modified accrual basis rather than on the full 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:

	General
Government funds - net change in fund balances	\$ (17,221)
Adjustments:	
To reverse the effect of non-budgeted amounts for:	
Less intergovernmental revenue - State contribution to teachers retirement	(2,025,936)
Less education expense - State contribution to teachers retirement	2,025,936
Net effect of encumbrances recorded as budget expenditures	(1,052,669)
Net effects of stabilization fund: interest income included and transfers eliminated in governmental funds	(160,668)
Adjust tax revenue to accrual basis	3,303
Plus other sources - revenue appropriation	1,834,696
Excess of revenues and other sources over expenditures and other uses (budgetary basis)	\$ 607,441

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, 2019 were \$12,814,418 of which \$12,075,525 was fully insured or collateralized and \$738,893 was uninsured and uncollateralized.

C. Receivables

Receivables at June 30, 2019, are as follows:

	Governmental Activities			Total
	General Fund	Nonmajor Funds	Governmental Funds	Business-type Activities
Property and excise taxes	\$ 614,340		\$ 614,340	
Tax liens and foreclosures	276,375		276,375	
Ambulance	371,682		371,682	
Other		\$ 3,999	3,999	
Water and Sewer			---	\$ 1,010,727
Allowance for doubtful accounts	(150,387)		(150,387)	(81,132)
Total receivables	<u>\$ 1,112,010</u>	<u>\$ 3,999</u>	<u>\$ 1,116,009</u>	<u>\$ 929,595</u>

D. Capital assets

Capital assets activity for the year ended June 30, 2019 was as follows:

	Governmental Activities			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,457,263	\$ ---	\$ ---	\$ 2,457,263
Construction in process	143,497	---	---	143,497
Total capital assets, not being depreciated	2,600,760	---	---	2,600,760
Capital assets, being depreciated:				
Buildings and improvements	29,884,104	110,988	---	29,995,092
Land improvements	1,182,882	---	---	1,182,882
Vehicles, machinery and equipment	7,504,962	204,808	(30,832)	7,678,938
Infrastructure	6,706,181	708,188	---	7,414,369
Total capital assets, being depreciated	45,278,129	1,023,984	(30,832)	46,271,281
Less accumulated depreciation for:				
Buildings and improvements	(13,958,093)	(59,144)	---	(14,017,237)
Land improvements	(413,745)	(703,840)	---	(1,117,585)
Vehicles, machinery and equipment	(5,684,319)	(355,775)	30,832	(6,009,262)
Infrastructure	(1,818,612)	(277,500)	---	(2,096,112)
Total accumulated depreciation	(21,874,769)	(1,396,259)	30,832	(23,240,196)
Total capital assets, being depreciated, net	23,403,360	(372,275)	---	23,031,085
Governmental activities capital assets, net	\$ 26,004,120	\$ (372,275)	\$ ---	\$ 25,631,845
	</			

D. Capital assets (continued)

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

Governmental activities

General government	\$	79,883
Public safety		210,724
Education		651,985
Public works		369,276
Health and human services		24,758
Cultural and recreation		59,633
Total depreciation expense, governmental activities	\$	<u>1,396,259</u>

Business-type activities

Water	\$	423,643
Sewer		668,316
Total depreciation expense, business-type activities	\$	<u>1,091,959</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, 2018	Additions	Reductions	Outstanding June 30, 2019
Governmental activities						
Elementary school	2023	2.0 to 3.0	\$ 4,000,000	\$ ---	\$ (750,000)	\$ 3,250,000
High school	2021	3.0 to 5.0	650,000	---	(260,000)	390,000
High school boiler	2019	1.95	102,925	---	(102,925)	---
Highway department truck	2019	1.95	142,874	---	(142,874)	---
Highway department truck	2019	1.95	175,000	---	(175,000)	---
High school boiler	*2020	2.10	---	79,727	---	79,727
Highway department truck	*2020	2.10	---	114,056	---	114,056
Highway department truck	*2020	2.10	---	175,000	---	175,000
Highway road paving	*2020	2.59	---	561,750	---	561,750
Total governmental activities			<u>5,070,799</u>	<u>930,533</u>	<u>(1,430,799)</u>	<u>4,570,533</u>
Business-type activities						
Water treatment plant	2035	4.50	1,069,707	---	(43,290)	1,026,417
Water treatment plant	2036	4.50	202,641	---	(7,553)	195,088
Water treatment plant	2037	4.50	2,557,669	---	(88,105)	2,469,564
Sewer plant	2027	2.00	10,467,176	---	(1,072,169)	9,395,007
Water distribution system	2019	1.95	31,035	---	(31,035)	---
Total business-type activities			<u>14,328,228</u>	<u>---</u>	<u>(1,242,152)</u>	<u>13,086,076</u>
Total			<u>\$ 19,399,027</u>	<u>\$ 930,533</u>	<u>\$ (2,672,951)</u>	<u>\$ 17,656,609</u>

*Short-term obligations that will be replaced by subsequent short-term obligations for an uninterrupted period extending beyond one year.

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
2020	\$ 1,980,533	\$ 123,725	\$ 2,104,258	\$ 1,239,031	\$ 343,060	\$ 1,582,091
2021	915,000	66,850	981,850	1,267,662	314,428	1,582,090
2022	825,000	37,875	862,875	1,297,033	285,057	1,582,090
2023	850,000	12,750	862,750	1,327,168	254,922	1,582,090
2024	---	---	---	1,358,089	224,001	1,582,090
2025 - 2029	---	---	---	4,690,281	678,587	5,368,868
2030 - 2034	---	---	---	1,233,605	322,890	1,556,495
2035 - 2037	---	---	---	673,207	56,626	729,833
Total	<u>\$ 4,570,533</u>	<u>\$ 241,200</u>	<u>\$ 4,811,733</u>	<u>\$ 13,086,076</u>	<u>\$ 2,479,571</u>	<u>\$ 15,565,647</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, 2019 is \$120,567.

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 \$938,298,092 and the 5% normal debt limit available borrowing balance was approximately \$46,915,000 at June 30, 2019. The Town's outstanding debt of \$17,656,609 reduced by \$16,336,076 of debt outside the limit for the school and water and sewer facilities, results in \$1,320,533 of inside the limit debt outstanding. The Town's inside the limit debt available balance is approximately \$45,594,467.

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 the replacement of the boiler at the high school, the purchase of two dump trucks for the highway department, and certain road paving by rolling over short-term bonds for lesser amounts each year. The total short-term bonds outstanding at June 30, 2019 were \$930,533. The Town has no other short-term anticipation notes outstanding at June 30, 2019.

G. Restricted fund balance on June 30, 2019

	General Fund	Nonmajor Funds	Total
Restricted:			
Debt service	\$ 163,830		\$ 163,830
Special revenue funds		\$ 2,675,431	2,675,431
Capital project funds		514,596	514,596
Expendable trust funds		17,261	17,261
Nonexpendable trust funds		192,350	192,350
Total restricted fund net assets	<u>\$ 163,830</u>	<u>\$ 3,399,638</u>	<u>\$ 3,563,468</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.

C. Other postemployment benefits

Effective July 1, 2017, the Town implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions*. This statement established new financial reporting requirements for government entities that provide other postemployment benefits (OPEB) to its employees and retirees and requires the Town to record the net OPEB liability measured as the total actuarially accrued liability.

Plan Description and Benefits Provided

The Town administers a retiree health care benefits program; a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for its employees. Employees of the Town and their dependents are eligible for postemployment medical, dental, and life insurance based on the eligibility requirements. A brief description of the plan offered is:

Retirement Eligibility: An employee hired before April 2, 2012 shall become eligible to retire upon attainment of age 55 as an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age.

Employees hired on or after April 2, 2012 shall be eligible to retire upon attainment of age 60 with 10 years of creditable service.

Creditable Service:	Elapsed time from date of hire to termination of service date.
Participant Contributions:	Retirees shall pay 40% of premiums for medical, 100% for dental, and 50% for life insurance.
Medical Coverage:	Comprehensive medical insurance offered through Blue Cross Blue Shield of Massachusetts.
Dental Coverage:	Comprehensive dental insurance.
Life Insurance Coverage:	Retirees are eligible for a \$5,000 life insurance benefit.

Plan Membership

At June 30, 2019, OPEB plan membership consisted of the following:

Active employees	187
Inactive employees or beneficiaries currently receiving benefits	<u>139</u>
Total	<u>326</u>

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation performed as of July 1, 2017, rolled forward to the measurement date of June 30, 2019 and using the following assumptions, applied to all periods included in the measurement:

Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	Market Value of Assets
Investment Rate of Return:	6.77%, net of OPEB plan investment expense, including inflation.
Discount Rate:	4.00% per annum
Inflation:	2.50%
Healthcare Cost Trend Rate:	5% per annum
Pre-retirement Mortality:	It is assumed that pre-retirement mortality is represented by the RP-2000 Employees Mortality Table projected generationally with Scale BB and a base year 2009 for males and females.
Post-retirement Mortality:	It is assumed that post-retirement mortality is represented by the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB and a base year 2009 for males and females.
Disabled Mortality:	It is assumed that disabled mortality is represented by the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB and a base year 2012 for males and females.

Change in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2018	\$ 24,398,002	\$ 447,781	\$ 23,950,221
Changes for the year:			
Service cost	668,045		668,045
Interest	910,094		910,094
Changes in benefit terms	---		---
Changes in assumptions	(1,910,974)		(1,910,974)
Differences between actual and expected experience	---		---
Net investment income		24,216	(24,216)
Employer contributions to trust		---	---
Benefit payments withdrawn from trust		---	---
Benefit payments including implicit cost	(813,420)		(813,420)
Administrative expense	---	---	---
Net changes	(1,146,255)	24,216	(1,170,471)
Balances at June 30, 2019	\$ 23,251,747	\$ 471,997	\$ 22,779,750

*** Trust Fund**

In fiscal year 2013, the Town adopted Massachusetts General Laws Chapter 32B, Section 20, authorizing the establishment of a separate fund to be known as the Other Post-Employment Benefits Liability Trust Fund, and other provisions as outlined in said statute. The assets in the trust fund are held by the Town in an interest-bearing bank account, and are not held in a separate legal trust. Accordingly, the total assets of \$471,997 as of June 30, 2019 are reported as fiduciary funds in the Statement of Fiduciary Net Position.

The total OPEB liability of \$23,251,747 at June 30, 2019 is a general obligation of the town and is reported as a long-term liability in the government-wide Statement of Net Position.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.00%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB's fiduciary net position was projected to be insufficient to make all projected payments of current plan members. Therefore, a 4.00% discount rate was applied to all periods to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount and Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate and healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Discount Rate		
	1% Decrease (3.00%)	Current (4.00%)	1% Increase (5.00%)
Net OPEB liability as of June 30, 2019	\$ 26,585,268	\$ 22,779,750	\$ 19,753,494
	Healthcare Cost Trend Rate		
	1% Decrease (4.00%)	Current (5.00%)	1% Increase (6.00%)
Net OPEB liability as of June 30, 2019	\$ 17,451,680	\$ 22,779,750	\$ 29,574,911

Deferred Outflows and Inflows of Resources

At June 30, 2019, the Town reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ ---	\$ 3,748,971
Changes in assumptions	612,579	---
Net difference between projected and actual earnings on OPEB plan investments	10,250	---
Total	<u>\$ 622,829</u>	<u>\$ 3,748,971</u>

Deferred outflows and inflows of resources related to OPEB will be recognized in expense as follows:

	2019
Year ended June 30:	
2020	\$ (1,042,453)
2021	(1,042,453)
2022	<u>(1,041,236)</u>
Total deferred outflows (inflows) or resources	<u>\$ (3,126,142)</u>

The total OPEB liability and deferred outflows and inflows of resources is reported in the Town's government-wide Statement of Net Position as follows for the year ended June 30, 2019:

	Governmental Activities	Business-type Activities	Total
Total OPEB liability	\$ 22,159,685	\$ 1,092,062	\$ 23,251,747
Less deferred outflows of resources	593,577	29,252	622,829
Plus deferred inflows of resources	<u>3,572,894</u>	<u>176,077</u>	<u>3,748,971</u>
Total OPEB liability, net of deferred outflows and inflows of resources	<u>\$ 25,139,002</u>	<u>\$ 1,238,887</u>	<u>\$ 26,377,889</u>

D. Berkshire County Contributory Retirement System

Plan description

The Town participates in the Berkshire County Contributory Retirement System (the Plan) which is a cost-sharing multiple-employer public employee retirement system covering the employees of 46 member units, except school department employees who serve in a teaching capacity. Eligible employees must participate in the Plan. The Plan is organized under Chapter 34B of the Massachusetts General Laws (MGL) and is subject to the provisions of Chapter 32 of the MGL. The Plan is governed by a five-member board. The board members are appointed or elected as specified by MGL Chapter 34B Section 19(b) for terms ranging from 3 to 6 years. The Plan is also guided by an advisory council comprised of the official “Treasurers” of each member unit.

Results of the Plan are based on liabilities developed in an actuarial valuation performed as of January 1, 2017 and rolled forward to the Plan’s measurement date of December 31, 2018.

Accounting policy

The Plan follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the member’s employees are recognized in the period in which employees provide services to the member employers. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan membership

At December 31, 2018, pension plan membership consisted of the following:

Active plan members	1,142
Retirees and beneficiaries receiving benefits	778
Terminated plan members entitled to but not yet receiving benefits	<u>252</u>
Total	<u><u>2,172</u></u>
Number of participating employers	<u>46</u>

Benefits and contributions

The Plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the MGL establishes the authority of the Plan, contribution percentages and benefits paid. The Plan’s Retirement Board does not have the authority to amend benefit provisions.

Employees contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the MGL. The employee’s individual contribution percentage is determined by their date of entry into the Plan. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Plan provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year or five-year average annual rate of regular compensation, depending upon the date of hire. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The Plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable services, (2) was on the member employer's payroll on January 1, 1978, (3) voluntarily left employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Pension liabilities, expense and deferred outflows and inflows of resources

At June 30, 2019, the Town reported a net pension liability of \$4,396,272, deferred outflows related to pensions of \$1,703,576, and deferred inflows related to pensions of \$61,004 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension relative to the projected contributions of all participating Plan employers, actuarially determined. At December 31, 2018, the Town's proportion was 10.05%. Net pension liability, deferred outflows/inflows of resources and pension expense are allocated to each employer based on its proportionate share of total employer contributions. For the year ended June 30, 2019, the Town recognized pension expense of \$95,199. Contributions made subsequent to the measurement date of December 31, 2018 were \$-0-.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2017, rolled forward to the measurement date of December 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement date:

Investment rate of return:	7.25% net of pension plan investment expense, including inflation.
Salary increases:	4.25% for Group 1 and 4.75% for Group 4.
Inflation:	Not explicitly assumed.
Cost of Living Adjustment	3% of first \$14,000.
Mortality:	<p>Pre-retirement rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).</p> <p>Post retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).</p> <p>For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).</p>

The investment return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns, and professional judgment. The market expectations analysis used a building-block approach which included expected returns by asset class and the target asset allocation.

Target allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rate of return for each major asset class included in the Plan's targeted asset allocation as of December 31, 2018 are summarized in the following table:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Weighted Long-term Expected Real Rate of Return
U.S. equity	17.50%	7.62%	1.33%
International equities	15.50%	7.80%	1.21%
Emerging equities	6.00%	9.31%	0.56%
Core bonds	5.00%	4.37%	0.22%
20+ Year Treasury STRIPS	2.00%	3.50%	0.07%
TIPS	5.00%	4.00%	0.20%
Value-added fixed income	10.00%	7.58%	0.76%
Private Equity	12.00%	11.15%	1.34%
Real Estate (Core)	10.00%	6.59%	0.66%
Timberland	4.00%	7.00%	0.28%
Portfolio completion (PBC)	13.00%	6.83%	0.89%
Total	100.00%		

Changes in net pension liability

	Berkshire County Retirement System 100%			Town of Lee 10.05%		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2018	\$ 269,536,000	\$ 243,683,000	\$ 25,853,000	\$ 27,896,976	\$ 25,221,191	\$ 2,675,785
Net changes	10,993,000	(6,898,000)	17,891,000	296,189	(1,424,298)	1,720,487
Balances at December 31, 2018	\$ 280,529,000	\$ 236,785,000	\$ 43,744,000	\$ 28,193,165	\$ 23,796,893	\$ 4,396,272

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 7,696,089	\$ 4,396,272	\$ 1,485,993

Deferred Outflows and Inflows of Resources

At June 30, 2019, the Town reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 36,984	\$ 61,004
Net difference between projected and actual investment earnings on pension plan assets	934,952	---
Changes in assumptions	731,640	---
Changes in proportion and differences between employer contributions and proportionate share of contributions	---	---
Contributions subsequent to the measurement date	---	---
Total	<u>\$ 1,703,576</u>	<u>\$ 61,004</u>

Deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2020	\$ 679,581
2021	274,868
2022	225,321
2023	<u>462,802</u>
Total	<u>\$ 1,642,572</u>

The net pension liability and deferred outflows and inflows of resources are reported in the Town's Statement of Net Position as follows for the year end June 30, 2019:

	Governmental Activities	Business-type Activities	Total
Net pension liability	\$ 4,097,558	\$ 298,714	\$ 4,396,272
Less deferred outflows of resources	1,604,201	99,375	1,703,576
Plus deferred inflows of resources	<u>57,446</u>	<u>3,558</u>	<u>61,004</u>
Net pension liability, net of deferred outflows and inflows of resources	<u>\$ 2,550,803</u>	<u>\$ 202,897</u>	<u>\$ 2,753,700</u>

Pension Plan Fiduciary Net Position

The Plan issues separate financial statements which can be obtained through the Berkshire County Retirement Board, 29 Dunham Mall, Pittsfield, MA 01201. In addition, an actuarial valuation is performed every two years, which is available through the Massachusetts Public Employee Retirement Administration Commission, 5 Middlesex Avenue, Suite 304, Somerville, MA 02145.

Payable to Pension Plan

At June 30, 2019, the Town reported a payable of \$-0- for outstanding amounts of contributions to the pension plan.

E. Massachusetts Teachers Retirement System

The Town is a member in the Massachusetts Teachers' Retirement System (MTRS), which is a public employee retirement system that administers a cost-sharing multi-employer defined benefit plan. The Town does not contribute to this plan. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

The Commonwealth is a non-employer contributor and is required by statute to make all actuarially determined contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a non-employer contributing entity in MTRS. Since the Town does not contribute directly to MTRS, there is no pension liability to recognize for the Town. However, the notes to the financial statements must disclose the portion of the non-employer contributing entities' share of the collective net pension liability that is associated with the Town. In addition, the Town must recognize its portion of the collective pension expense as both revenue and pension expense.

The Town's portion of the collective pension expense for fiscal year 2019 was \$2,025,936, which is reported in the government-wide statement of activities as education expense and state aid revenue. The Town's proportionate share of the systems net pension liability is \$19,992,362 or 0.0843% of the collective net pension liability of \$23,711,289,000.

F. 2020 Budget

The Town has authorized a fiscal 2020 operating and capital budget which will be financed from the following sources:

Taxation	\$ 13,908,470
Local receipts	2,977,763
State payments	4,299,896
Enterprise fund receipts	3,720,301
Revenue sources appropriated from free cash	<u>1,222,338</u>
Total budget	<u>\$ 26,128,768</u>

TOWN OF LEE, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB
LIABILITY AND RELATED RATIOS

June 30,

	<u>2019</u>	<u>2018</u>
Total OPEB liability		
Service cost	\$ 668,045	\$ 1,160,999
Interest	910,094	946,457
Changes of benefit terms	---	---
Changes of assumptions	(1,910,974)	1,020,965
Differences between actual and expected experience	---	(6,248,285)
Benefit payments including implicit cost	<u>(813,420)</u>	<u>(878,791)</u>
Net change in total OPEB liability	(1,146,255)	(3,998,655)
Total OPEB liability, beginning	<u>24,398,002</u>	<u>28,396,657</u>
Total OPEB liability, ending (a)	<u><u>\$ 23,251,747</u></u>	<u><u>\$ 24,398,002</u></u>
Plan fiduciary net position		
Contributions - employer	\$ ---	\$ 60,576
Interest	---	---
Net investment income	24,216	457
Benefit payments	---	---
Administrative expense	<u>---</u>	<u>---</u>
Net change in plan fiduciary net position	24,216	61,033
Plan fiduciary net position, beginning	<u>447,781</u>	<u>386,748</u>
Plan fiduciary net position, ending (b)	<u><u>\$ 471,997</u></u>	<u><u>\$ 447,781</u></u>
Net OPEB liability (a) - (b)	<u><u>\$ 22,779,750</u></u>	<u><u>\$ 23,950,221</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.03%	1.84%
Covered employee payroll	\$ 10,728,499	\$ 9,857,000
Net OPEB liability as a percentage of covered employee payroll	212.33%	242.98%

Notes to Schedule:

Changes of benefit terms: None.

Changes of assumptions:

Investment rate of return changed from 2.75% to 6.77% as of June 30, 2019.

Discount rate changed from 3.25% to 4.00% as of June 30, 2019.

Last 10 years: Only plan years 2018 and 2019 available.

See independent auditors' report.

TOWN OF LEE, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS

June 30,

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 1,934,733	\$ 2,386,136
Contributions in relation to the actuarially determined contribution	<u>813,420</u>	<u>939,367</u>
Contribution deficiency (excess)	<u>\$ 1,121,313</u>	<u>\$ 1,446,769</u>
Covered employee payroll	\$ 10,728,499	\$ 9,857,000
Contribution as a percentage of covered employee payroll	7.58%	9.53%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates were calculated as of July 1, 2017 with a measurement date of June 30, 2019.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal
Municipal bond rate:	2.79% as of June 30, 2019 (Source: S&P Municipal Bond 20-Year High Grade Index)
Discount rate:	4.00%
Inflation:	2.50% as of June 30, 2019 and for future periods
Pre- and post-retirement mortality	Mortality rates were based upon the RP-2000 Employees and Healthy Annuitant Mortality Tables for males or females projected generationally with scale BB
Disabled mortality:	Mortality rate was based upon the RP-2000 Healthy Annuitant Table projected with scale BB
Changes in assumptions:	Investment rate of return changed from 2.75% to 6.77%. Discount rate changed from 3.25% to 4.00%.
Last 10 years:	Only plan years 2018 and 2019 available.

See independent auditors' report.

TOWN OF LEE, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019

**Schedule of the Town's Proportionate Share
of the Net Pension Liability**

	Plan Year Ended December 31,				
	2018	2017	2016	2015	2014
Berkshire County Retirement System net pension liability	\$ 43,744,000	\$ 25,853,000	\$ 39,772,000	\$ 42,317,000	\$ 26,259,000
Town's proportion of the net pension liability	10.05%	10.35%	10.09%	10.28%	10.81%
Town's proportionate share of the net pension liability	\$ 4,396,272	\$ 2,675,786	\$ 4,012,995	\$ 4,350,188	\$ 2,838,599
Town's covered-employee payroll	\$ 5,195,747	\$ 5,086,539	\$ 5,076,727	\$ 4,767,736	\$ 4,752,104
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	84.61%	52.61%	79.05%	91.24%	59.73%
Plan fiduciary net position as a percentage of the total pension liability	84.41%	90.41%	84.06%	82.25%	88.13%

Schedule of Town's Pension Contributions

	Plan Year Ended December 31,				
	2018	2017	2016	2015	2014
Berkshire County Retirement System contractually required contribution	\$ 9,740,000	\$ 9,297,000	\$ 8,880,000	\$ 8,482,000	\$ 8,100,000
Town's contractually required contribution	\$ 977,581	\$ 960,948	\$ 894,653	\$ 870,205	\$ 873,532
Town's contributions in relation to the contractually required contribution	(977,581)	(960,948)	(894,653)	(870,205)	(873,532)
Town's contribution deficiency (excess)	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Town's covered-employee payroll	\$ 5,195,747	\$ 5,086,539	\$ 5,076,727	\$ 4,767,736	\$ 4,752,104
Contributions as a percentage of covered-employee payroll	18.82%	18.89%	17.62%	18.25%	18.38%

Notes to the Required Supplementary Information

Changes of benefit terms: None

Changes of assumptions: None

Last 10 years: Only plan years 2014 to 2018 available

See independent auditors' report.



Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

AUDIT | TAX | ADVISORY

Gary J. Moynihan, CPA
 Carol J. Leibinger-Healey, CPA
 David M. Irwin, Jr., CPA
 Allison L. Bedard, CPA
 Of Counsel:
 Richard F. LaFleche, CPA
 Vincent T. Viscuso, 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, 2019, and the related notes to the financial statements, which collectively comprise Town of Lee, Massachusetts' basic financial statements, and have issued our report thereon dated January 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Lee, Massachusetts' 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, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Lee, Massachusetts' 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 the Town of Lee, Massachusetts' 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

January 22, 2020