

TOWN OF LEE, MASSACHUSETTS

**Financial Statements and
Supplementary Information**

June 30, 2021

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TOWN OF LEE, MASSACHUSETTS

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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, 2021, 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, 2021, 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 38 and 39, and the Schedule of Proportionate Share of Net Pension Liability and Pension Contributions on page 40, 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 March 2, 2022 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

ADELSON & COMPANY PC

March 2, 2022

TOWN OF LEE, MASSACHUSETTS

Management's Discussion and Analysis

For the Year Ended June 30, 2021

As management (town administrator and fiscal department) 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, 2021. 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 42 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 \$27,614,896 at the close of the most recent fiscal year. This represents an increase in net position over the prior fiscal year of \$6,701,100.

TOWN OF LEE, MASSACHUSETTS SUMMARY STATEMENT OF NET POSITION

	2021			2020	Increase (Decrease)
	Governmental Activities	Business-type Activities	Totals	Totals	Totals
Cash and investments	\$ 11,577,957	\$ 4,059,000	\$ 15,636,957	\$ 14,077,611	\$ 1,559,346
Receivables and other current assets	1,530,311	1,005,494	2,535,805	2,196,550	339,255
Capital assets, net	27,003,215	23,574,425	50,577,640	50,015,316	562,324
Total assets	40,111,483	28,638,919	68,750,402	66,289,477	2,460,925
Current liabilities	319,938	249,580	569,518	1,040,310	(470,792)
Long-term debt and related liabilities	2,363,481	10,579,383	12,942,864	15,324,352	(2,381,488)
Net pension liability, net of deferred outflows/inflows	2,015,317	166,209	2,181,526	2,951,053	(769,527)
OPEB liability, net of deferred outflows/inflows	24,919,491	522,107	25,441,598	26,059,966	(618,368)
Total liabilities	29,618,227	11,517,279	41,135,506	45,375,681	(4,240,175)
Invested in capital assets, net of related debt	24,679,923	12,995,042	37,674,965	34,771,342	2,903,623
Restricted	5,362,172	-	5,362,172	4,192,946	1,169,226
Unrestricted	(19,548,839)	4,126,598	(15,422,241)	(18,050,492)	2,628,251
Total net position	\$ 10,493,256	\$ 17,121,640	\$ 27,614,896	\$ 20,913,796	\$ 6,701,100

Net position of \$37,674,965 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 \$28,319,064 for all activities. Revenues totaled \$35,020,164 for all activities. The net change result of \$6,701,100 is an increase in net position.

TOWN OF LEE, MASSACHUSETTS SUMMARY STATEMENT OF ACTIVITIES

	2021			2020	Increase
	Governmental Activities	Business-type Activities	Total Activities	Totals	(Decrease)
Revenues					
Taxes	\$ 16,443,417		\$ 16,443,417	\$ 15,753,565	\$ 689,852
Charges for services	3,214,594	\$ 3,451,231	6,665,825	6,579,014	86,811
Grants and contributions	11,145,898		11,145,898	8,179,824	2,966,074
Penalties and fines	81,522		81,522	70,295	11,227
Interest income	46,617	37,232	83,849	115,297	(31,448)
Other revenues	599,653	-	599,653	323,719	275,934
Total revenues	<u>31,531,701</u>	<u>3,488,463</u>	<u>35,020,164</u>	<u>31,021,714</u>	<u>3,998,450</u>
Expenses					
General government	1,332,010		1,332,010	1,157,558	174,452
Public safety	2,731,781		2,731,781	2,576,640	155,141
Education	15,184,081		15,184,081	14,351,951	832,130
Public works	1,616,333		1,616,333	1,240,369	375,964
Health and human services	729,079		729,079	694,746	34,333
Cultural and recreation	354,998		354,998	408,651	(53,653)
Employee benefits	2,779,842		2,779,842	4,646,535	(1,866,693)
Intergovernmental assessments	710,325		710,325	741,692	(31,367)
Water and Sewer		2,543,922	2,543,922	1,717,982	825,940
Interest and fiscal charges	25,979	310,714	336,693	406,947	(70,254)
Total expenses	<u>25,464,428</u>	<u>2,854,636</u>	<u>28,319,064</u>	<u>27,943,071</u>	<u>375,993</u>
Change in net position	6,067,273	633,827	6,701,100	3,078,643	3,622,457
Net position, beginning	<u>4,425,983</u>	<u>16,487,813</u>	<u>20,913,796</u>	<u>17,835,153</u>	<u>3,078,643</u>
Net position, ending	<u>\$ 10,493,256</u>	<u>\$ 17,121,640</u>	<u>\$ 27,614,896</u>	<u>\$ 20,913,796</u>	<u>\$ 6,701,100</u>

Governmental activities net position increased by \$6,067,273 in fiscal year 2021. The key elements of this increase are as follows:

- The Town issued debt of \$648,292 and made principal debt payments of \$1,721,929.
- The Town recorded a decrease in its other postemployment benefits liability of \$608,887, net of deferred outflows and inflows of resources related to other postemployment benefits.
- The Town recorded a decrease in its net pension liability of \$723,486, net of deferred outflows and inflows of resources related to pensions.
- The Town capitalized fixed assets of \$3,073,878 and recorded depreciation expense of \$1,475,204.

Property Taxes

Property tax revenues recorded for the fiscal year ended June 30, 2021 reflects no change in the Town's residential and commercial tax rate to \$14.68 from the prior fiscal year. Tax rates and valuation data for the five most recent fiscal years are as follows:

	2022	2021	2020	2019	2018
Real and personal property valuation	\$ 1,070,641,592	\$ 962,601,871	\$ 947,443,439	\$ 938,298,092	\$ 925,395,969
Tax levy	14,614,258.00	14,130,995.00	13,908,470.00	13,868,046.00	13,538,543.00
Property tax rates (per thousand)	13.65	14.68	14.68	14.78	14.63

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 \$11,674,721. Of this amount, \$8,129,566 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 \$3,545,155 for the general fund.

The governmental fund activities for fiscal year 2021 resulted in an increase in net fund balance of \$1,966,603. Key elements of this change are as follows:

- Total revenues were \$31,479,086.
- Total expenses were \$30,160,775.
- Included in the expenses is capital outlay of \$3,073,878. These amounts are budgeted as expenses in the governmental funds but are capitalized on the government-wide statement of net position.
- The Town issued bonds of \$648,292.

- Also included in the expenses is debt service of \$1,791,279 (\$1,721,929 principal repayment and \$69,350 interest expense). These amounts are budgeted as expenses in the governmental funds but the principal repayment of \$1,721,929 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 \$17,121,640. Of this amount, \$12,995,042 is invested in capital assets which is net of any related debt used to acquire or construct those assets, and \$4,126,598 is unrestricted which can be used to meet the financial needs of ongoing operations.

The enterprise activities for the fiscal year 2021 resulted in an increase in net position of \$633,827. Key elements of this change are as follows:

- Operating revenues were \$3,451,231.
- Operating expenses were \$2,543,922.
- Included in operating expenses is depreciation expense of \$1,036,350.
- Included in operating expenses is other post-employment benefits (OPEB) expense (recovery) of (\$9,481).
- Included in operating expenses is net pension liability expense (recovery) of \$(46,041).
- Interest expense and fiscal charges on long-term debt was \$310,714. Principal repayment of long-term debt, which is reported on the statement of net position, was \$1,267,662.

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 \$92,468 for property tax revenue. The Town's budgeted property tax revenue of \$13,055,358 is based upon taxes levied less estimated abatements and exemptions. The actual property tax revenue received of \$12,962,890 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, 2021, collected 97% of the real estate taxes committed for fiscal year 2021.
- The Town reported a net favorable budget variance of \$773,953 for collection of excise and other taxes. The favorable variance primarily consists of \$109,965 motor vehicle excise tax above budget, \$99,779 room and meals tax above budget, and \$544,754 cannabis excise tax above budget.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets as of June 30, 2021, amounts to \$50,577,640 (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	2,986,794	121,432	3,108,226
Buildings and improvements	14,102,696	16,901,558	31,004,254
Land improvements	591,704	-	591,704
Machinery and equipment	1,303,413	137,747	1,441,160
Infrastructure	5,561,345	6,413,688	11,975,033
Total	<u>\$ 27,003,215</u>	<u>\$ 23,574,425</u>	<u>\$ 50,577,640</u>
Current year additions:			
School equipment	\$ 104,199	\$ -	\$ 104,199
Library purchases	29,316	-	29,316
Plow truck	16,499	-	16,499
Salt shed roof	48,500	-	48,500
Fire Dept heating system	55,600	-	55,600
Infrastructure improvements	2,819,764	-	2,819,764
Total	<u>\$ 3,073,878</u>	<u>\$ -</u>	<u>\$ 3,073,878</u>

Additional information on the Town's capital assets can be found on page 25 and 26 of this report.

Long-term debt

At the end of the current fiscal year, the Town had total debt outstanding of \$12,902,675. 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, 2021

	Governmental Activities	Business-type Activities	Total
Elementary school	\$ 1,675,000		\$ 1,675,000
High school boiler	44,841		44,841
Highway department trucks	175,368		175,368
Highway road paving	428,083		428,083
Water treatment plant (multiple bonds)		\$ 3,394,133	3,394,133
Sewer plant		7,185,250	7,185,250
Total	<u>\$ 2,323,292</u>	<u>\$ 10,579,383</u>	<u>\$ 12,902,675</u>

Additional information on the Town's long-term debt can be found on pages 27 and 28 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 2022 operating and capital budget can be found on page 37 of this report.

Impact of COVID-19

The Town's day to day operations were mildly impacted by the COVID crisis in fiscal years 2020 and 2021, with a slightly adverse effect on revenue. The Town spent \$43,440 in Cares and Covid FEMA funds in fiscal year 2020 to upgrade telecommunications and remote work abilities and for personal protective equipment, sanitation, and workspace reconfiguration. Funds were also spent on community meals for the most fragile residents. A significant amount of Cares and FEMA funds were spent in fiscal year 2021. Both the Cares and FEMA funding have been or are being closed out in fiscal year 2022, however the Town has now received the first half of a \$1.6 million dollar award of ARPA funding in fiscal year 2022. Approximately \$711,000 of these funds will be distributed to various projects and recipients. Workspaces and work schedules were modified to minimize contact between employees and departments. The Town also extended billing deadlines and abated fees to businesses such as restaurants with legitimate income reductions to help ease their financial burdens. The Town has followed the Governor and State Health Department's best practice recommendations to minimize the spread of the virus. Town hall was closed to the public in March, 2020, as ordered by the Governor. We are now open to the public and are able to conduct business both in person and virtually. The transition to virtual service and communication has been smooth, and the staff continues to operate with a high level of service to residents.

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, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Assets			
Current:			
Cash and cash equivalents	\$ 10,898,736	\$ 4,059,000	\$ 14,957,736
Investments	679,221	-	679,221
Receivables, net	849,738	987,970	1,837,708
Tax liens and foreclosures	354,407	-	354,407
Due from other governments	326,166	-	326,166
Other assets	-	17,524	17,524
Noncurrent:			
Capital assets, net	27,003,215	23,574,425	50,577,640
Total assets	40,111,483	28,638,919	68,750,402
Deferred outflows of resources			
Deferred outflows related to pensions	784,946	49,951	834,897
Deferred outflows related to other postemployment benefits	2,263,972	47,433	2,311,405
Total assets and deferred outflows of resources	43,160,401	28,736,303	71,896,704
Liabilities			
Current:			
Warrants and other payables	247,098	84,678	331,776
Payroll and related liabilities	69,684	5,202	74,886
Accrued interest payable	3,156	159,700	162,856
Current portion of long-term debt	1,473,292	1,297,033	2,770,325
Noncurrent:			
Long-term debt, net of current portion	850,000	9,282,350	10,132,350
Unamortized bond premium	40,189	-	40,189
Net pension liability	1,173,508	112,639	1,286,147
Net other postemployment benefits liability	25,147,831	526,889	25,674,720
Total liabilities	29,004,758	11,468,491	40,473,249
Deferred inflows of resources			
Deferred inflows related to pensions	1,626,755	103,521	1,730,276
Deferred inflows related to other postemployment benefits	2,035,632	42,651	2,078,283
Total liabilities and deferred inflows of resources	32,667,145	11,614,663	44,281,808
Net position			
Invested in capital assets, net of related debt	24,679,923	12,995,042	37,674,965
Restricted for			
Special revenue funds	4,455,952	-	4,455,952
Capital project funds	677,855	-	677,855
Expendable trust funds	35,415	-	35,415
Nonexpendable trust funds	192,950	-	192,950
Unrestricted	(19,548,839)	4,126,598	(15,422,241)
Total net position	\$ 10,493,256	\$ 17,121,640	\$ 27,614,896

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 1,332,010	\$ 122,771	\$ 103,533	\$ -	\$ (1,105,706)		\$ (1,105,706)
Public safety	2,731,781	979,481	288,946	-	(1,463,354)		(1,463,354)
Education	15,184,081	1,564,899	6,672,862	-	(6,946,320)		(6,946,320)
Public works	1,616,333	181,074	57,399	2,742,216	1,364,356		1,364,356
Health and human services	729,079	322,866	186,696	-	(219,517)		(219,517)
Cultural and recreation	354,998	43,503	14,815	-	(296,680)		(296,680)
Employee benefits	2,779,842	-	-	-	(2,779,842)		(2,779,842)
Intergovernmental assessments	710,325	-	-	-	(710,325)		(710,325)
Interest and fiscal charges	25,979	-	-	-	(25,979)		(25,979)
Total governmental activities	<u>25,464,428</u>	<u>3,214,594</u>	<u>7,324,251</u>	<u>2,742,216</u>	<u>(12,183,367)</u>		<u>(12,183,367)</u>
Business type activities							
Water	1,236,568	1,254,969	-	-		\$ 18,401	18,401
Sewer	<u>1,618,068</u>	<u>2,196,262</u>	<u>-</u>	<u>-</u>		<u>578,194</u>	<u>578,194</u>
Total business type activities	<u>2,854,636</u>	<u>3,451,231</u>	<u>-</u>	<u>-</u>		<u>596,595</u>	<u>596,595</u>
Total all activities	<u>\$ 28,319,064</u>	<u>\$ 6,665,825</u>	<u>\$ 7,324,251</u>	<u>\$ 2,742,216</u>	<u>(12,183,367)</u>	<u>596,595</u>	<u>(11,586,772)</u>
General revenues:							
Taxes					16,443,417	-	16,443,417
Grants, contributions and government aid not restricted to specific programs					1,079,431	-	1,079,431
Penalties and interest					81,522	-	81,522
Earnings on investments					46,617	37,232	83,849
Other revenues					<u>599,653</u>	<u>-</u>	<u>599,653</u>
Total general revenues					<u>18,250,640</u>	<u>37,232</u>	<u>18,287,872</u>
Change in net position					6,067,273	633,827	6,701,100
Net position, beginning					<u>4,425,983</u>	<u>16,487,813</u>	<u>20,913,796</u>
Net position, ending					<u>\$ 10,493,256</u>	<u>\$ 17,121,640</u>	<u>\$ 27,614,896</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2021

	General Fund	Other Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 6,050,137	\$ 4,848,599	\$ 10,898,736
Investments	454,891	224,330	679,221
Receivables, net	845,402	4,336	849,738
Tax liens and foreclosures	354,407	-	354,407
Due from other governments	-	326,166	326,166
Total assets	<u>\$ 7,704,837</u>	<u>\$ 5,403,431</u>	<u>\$ 13,108,268</u>
Liabilities			
Warrants and other payables	\$ 214,491	\$ 32,607	\$ 247,098
Payroll and related liabilities	65,368	4,316	69,684
Total liabilities	<u>279,859</u>	<u>36,923</u>	<u>316,782</u>
Deferred inflows of resources			
Revenue not considered available	<u>1,112,429</u>	<u>4,336</u>	<u>1,116,765</u>
Fund balances			
Restricted	64,301	5,362,172	5,426,473
Committed	295,769	-	295,769
Assigned	2,407,324	-	2,407,324
Unassigned	<u>3,545,155</u>	<u>-</u>	<u>3,545,155</u>
Total fund balances	<u>6,312,549</u>	<u>5,362,172</u>	11,674,721
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,704,837</u>	<u>\$ 5,403,431</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	27,003,215
Accrued interest on outstanding debt is recorded on the statement of net position, whereas in the governmental funds, interest is not reported until due	(3,156)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(2,363,481)
Net pension liability	(2,015,317)
Net other postemployment benefits liability	(24,919,491)
Revenues are reported on the accrual basis of accounting and not deferred	1,116,765
Net position of governmental activities	<u>\$ 10,493,256</u>

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, 2021

	General Fund	Other Nonmajor Funds	Total Governmental Funds
Revenues			
Real estate taxes	\$ 12,954,977	\$ -	\$ 12,954,977
Personal property taxes	1,039,041	-	1,039,041
Motor vehicle excise taxes	869,965	-	869,965
Hotel, motel and meals excise taxes	554,014	-	554,014
Other taxes	972,805	-	972,805
Penalties and interest	81,522	-	81,522
Charges for services	1,470,271	1,730,830	3,201,101
Licenses, permits and fees	13,493	-	13,493
Intergovernmental	6,471,021	4,674,877	11,145,898
Earnings on investments	32,899	13,718	46,617
Other revenues	150,528	449,125	599,653
Total revenues	<u>24,610,536</u>	<u>6,868,550</u>	<u>31,479,086</u>
Expenditures			
General government	1,208,602	43,661	1,252,263
Public safety	2,301,795	327,201	2,628,996
Education	12,462,499	2,151,418	14,613,917
Public works	1,229,290	2,772,922	4,002,212
Health and human services	153,582	550,634	704,216
Cultural and recreation	338,532	6,820	345,352
Employee benefits	4,112,215	-	4,112,215
Intergovernmental assessments	710,325	-	710,325
Debt service:			
Principal retirement	915,000	806,929	1,721,929
Interest and fiscal charges	69,350	-	69,350
Total expenditures	<u>23,501,190</u>	<u>6,659,585</u>	<u>30,160,775</u>
Excess (deficiency) of revenues over expenditures	<u>1,109,346</u>	<u>208,965</u>	<u>1,318,311</u>
Other financing sources (uses)			
Other financing sources - bond proceeds	-	648,292	648,292
Transfers in	27,544	339,513	367,057
Transfers out	(339,513)	(27,544)	(367,057)
Total other financing sources (uses)	<u>(311,969)</u>	<u>960,261</u>	<u>648,292</u>
Net change in fund balances	797,377	1,169,226	1,966,603
Fund balances, beginning	<u>5,515,172</u>	<u>4,192,946</u>	<u>9,708,118</u>
Fund balances, ending	<u>\$ 6,312,549</u>	<u>\$ 5,362,172</u>	<u>\$ 11,674,721</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, 2021

Net change in fund balances of total governmental funds	\$ 1,966,603
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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	3,073,878
Depreciation expense	(1,475,204)

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

52,615

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	(648,292)
Debt principal payments	1,721,929

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	3,182
Decrease in net pension liability, net of deferred inflows and outflows	723,486
Decrease in net postemployment benefits liability, net of deferred inflows and outflows	<u>608,887</u>

Change in net position of governmental activities	\$ <u>6,067,273</u>
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See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS) - GENERAL FUNDS
For the Year Ended June 30, 2021

	General Fund			Variance -
	Budget		Actual	Favorable
	Original	Final		(Unfavorable)
Revenues				
Real estate taxes	\$ 13,055,358	\$ 13,055,358	\$ 12,962,890	\$ (92,468)
Personal property taxes	1,075,637	1,075,637	1,039,041	(36,596)
Motor vehicle excise taxes	760,000	760,000	869,965	109,965
Hotel, motel and meals excise taxes	454,235	454,235	554,014	99,779
Other taxes	372,000	372,000	972,805	600,805
Penalties and interest	46,000	46,000	81,522	35,522
Charges for services	1,292,442	1,292,442	1,470,271	177,829
Licenses, permits and fees	20,000	20,000	13,493	(6,507)
Intergovernmental	3,472,433	3,472,433	3,492,971	20,538
Earnings on investments	50,000	50,000	26,582	(23,418)
Other revenues	44,644	44,644	150,528	105,884
Total revenues	<u>20,642,749</u>	<u>20,642,749</u>	<u>21,634,082</u>	<u>991,333</u>
Expenditures				
General government	1,220,623	1,220,623	1,120,346	100,277
Public safety	2,269,765	2,269,765	2,208,484	61,281
Education	9,497,015	9,497,015	9,484,449	12,566
Public works	1,098,475	1,098,475	1,075,880	22,595
Health and human services	224,954	224,954	155,082	69,872
Culture and recreation	368,561	368,561	368,561	-
Employee benefits	4,261,239	4,261,239	4,112,215	149,024
Intergovernmental assessments	745,597	745,597	710,325	35,272
Debt service:				
Principal retirement	915,000	915,000	915,000	-
Interest and fiscal charges	69,350	69,350	69,350	-
Total expenditures	<u>20,670,579</u>	<u>20,670,579</u>	<u>20,219,692</u>	<u>450,887</u>
Excess (deficiency) of revenues over expenditures	<u>(27,830)</u>	<u>(27,830)</u>	<u>1,414,390</u>	<u>1,442,220</u>
Other financing sources (uses)				
Transfers in	-	-	27,544	27,544
Transfers out	(339,513)	(339,513)	(339,513)	-
Revenue appropriation	367,343	367,343	367,343	-
Total other financing sources (uses)	<u>27,830</u>	<u>27,830</u>	<u>55,374</u>	<u>27,544</u>
Excess of revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,469,764</u>	<u>\$ 1,469,764</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2021

	Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,576,962	\$ 2,482,038	\$ 4,059,000
Accounts receivable from customers (net of allowance for uncollectibles)	279,504	708,466	987,970
Tax liens and foreclosures	<u>7,528</u>	<u>9,996</u>	<u>17,524</u>
Total current assets	1,863,994	3,200,500	5,064,494
Capital assets, net	<u>7,122,801</u>	<u>16,451,624</u>	<u>23,574,425</u>
Total assets	8,986,795	19,652,124	28,638,919
Deferred outflows of resources			
Deferred outflows related to pensions	28,543	21,408	49,951
Deferred outflows related to other postemployment benefits	<u>26,340</u>	<u>21,093</u>	<u>47,433</u>
Total assets and deferred outflows of resources	<u>9,041,678</u>	<u>19,694,625</u>	<u>28,736,303</u>
Liabilities			
Current liabilities			
Warrants and other payables	13,280	71,398	84,678
Payroll and related liabilities	4,192	1,010	5,202
Accrued interest	93,540	66,160	159,700
Current portion of long-term debt	158,562	1,138,471	1,297,033
Noncurrent liabilities			
Long-term debt, net of current portion	3,235,571	6,046,779	9,282,350
Net pension liability	50,197	62,442	112,639
Net other postemployment benefits liability	<u>292,584</u>	<u>234,305</u>	<u>526,889</u>
Total liabilities	3,847,926	7,620,565	11,468,491
Deferred inflows of resources			
Deferred inflows related to pensions	59,155	44,366	103,521
Deferred inflows related to other postemployment benefits	<u>23,684</u>	<u>18,967</u>	<u>42,651</u>
Total liabilities and deferred inflows of resources	<u>3,930,765</u>	<u>7,683,898</u>	<u>11,614,663</u>
Net position			
Invested in capital assets, net of related debt	3,728,668	9,266,374	12,995,042
Unrestricted	<u>1,382,245</u>	<u>2,744,353</u>	<u>4,126,598</u>
Total net position	<u>\$ 5,110,913</u>	<u>\$ 12,010,727</u>	<u>\$ 17,121,640</u>

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, 2021

	Enterprise Funds		
	Water	Sewer	Total
Operating revenues			
Charges for services	\$ 1,254,969	\$ 2,196,262	\$ 3,451,231
Operating expenses			
Salaries and wages	403,456	257,694	661,150
Operating expenses	94,820	428,739	523,559
Materials and supplies	179,428	120,729	300,157
Depreciation expense	394,716	641,634	1,036,350
Capital outlay - small equipment purchases	8,641	14,065	22,706
Total operating expenses	1,081,061	1,462,861	2,543,922
Operating income (loss)	173,908	733,401	907,309
Nonoperating revenues (expenses)			
Earnings on investments	13,965	23,267	37,232
Interest and fiscal charges	(155,507)	(155,207)	(310,714)
Total nonoperating revenues (expenses)	(141,542)	(131,940)	(273,482)
Change in net position	32,366	601,461	633,827
Net position, beginning	5,078,547	11,409,266	16,487,813
Net position, ending	\$ 5,110,913	\$ 12,010,727	\$ 17,121,640

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2021

	Enterprise Funds		
	Water	Sewer	Totals
Cash flows from operating activities			
Receipts from customers	\$ 1,268,106	\$ 2,203,574	\$ 3,471,680
Payments to suppliers	(288,601)	(510,213)	(798,814)
Payments to employees	(432,009)	(285,541)	(717,550)
Net cash provided (used) by operating activities	<u>547,496</u>	<u>1,407,820</u>	<u>1,955,316</u>
Cash flows from investing activities			
Interest income	<u>13,965</u>	<u>23,267</u>	<u>37,232</u>
Net cash provided (used) by investing activities	<u>13,965</u>	<u>23,267</u>	<u>37,232</u>
Cash flows from capital and related financing activities			
Principal paid on debt	(151,735)	(1,115,927)	(1,267,662)
Interest and fees paid on debt	<u>(159,564)</u>	<u>(166,479)</u>	<u>(326,043)</u>
Net cash provided (used) by capital and related financing activities	<u>(311,299)</u>	<u>(1,282,406)</u>	<u>(1,593,705)</u>
Increase in cash and cash equivalents	250,162	148,681	398,843
Cash and cash equivalents, beginning	<u>1,326,800</u>	<u>2,333,357</u>	<u>3,660,157</u>
Cash and cash equivalents, ending	<u>\$ 1,576,962</u>	<u>\$ 2,482,038</u>	<u>\$ 4,059,000</u>
	Water	Sewer	
	Enterprise	Enterprise	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 173,908	\$ 733,401	\$ 907,309
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Cash flows reported in other categories			
Depreciation	394,716	641,634	1,036,350
(Increase) decrease in operating assets:			
Accounts receivable	13,137	7,312	20,449
Increase (decrease) in operating liabilities:			
Warrants and other payables	(6,574)	53,304	46,730
Net pension liability	(26,309)	(19,732)	(46,041)
Net other postemployment benefits liability	<u>(1,382)</u>	<u>(8,099)</u>	<u>(9,481)</u>
Net cash provided (used) by operating activities	<u>\$ 547,496</u>	<u>\$ 1,407,820</u>	<u>\$ 1,955,316</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2021

	Private-Purpose Expendable Trust Funds	Other Post Employment Benefits Trust Fund	Total	Agency Funds
Assets				
Cash and equivalents	\$ 24,368	\$ -	\$ 24,368	\$ 69,624
Investments at fair value	127,500	662,274	789,774	---
Total assets	<u>151,868</u>	<u>662,274</u>	<u>814,142</u>	<u>69,624</u>
Liabilities				
Deposits held in custody	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,624</u>
Net position				
Restricted, held in trust	<u>\$ 151,868</u>	<u>\$ 662,274</u>	<u>\$ 814,142</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2021

	Private-Purpose Expendable Trust Funds	Other Post Employment Benefits Trust Fund	Total
Additions			
Contributions	\$ 26,220	\$ 50,000	\$ 76,220
Investment earnings:			
Interest and dividends	-	18,250	18,250
Realized gains (losses)	-	11,144	11,144
Net increase (decrease) in fair value of investments	-	97,183	97,183
Total additions	<u>26,220</u>	<u>176,577</u>	<u>202,797</u>
Deductions			
Trust purpose expenditures	71,113	-	71,113
Benefits	<u>-</u>	<u>-</u>	<u>-</u>
Total deductions	<u>71,113</u>	<u>-</u>	<u>71,113</u>
Change in net position	(44,893)	176,577	131,684
Net position, beginning	<u>196,761</u>	<u>485,697</u>	<u>682,458</u>
Net position, ending	<u>\$ 151,868</u>	<u>\$ 662,274</u>	<u>\$ 814,142</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

Notes to Financial Statements

June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statements have been considered, and no component units were identified to be included in the Town's financial statements.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not 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.

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.

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.

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 March 2, 2022, 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 2021 levy was \$962,601,871. A tax rate of \$14.68 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 2021, the Town’s tax levy was \$14,130,995, which was below both its levy limit of \$17,672,417 (levy limit of \$17,242,283 plus debt exclusions of \$430,134) and levy ceiling of \$24,065,047.

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 is included as part of the capitalized value of the assets constructed. Interest expense capitalized during the current fiscal year was \$-0-.

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 - 50	Vehicles	5 - 7
Building improvements	20	Office equipment	5
Infrastructure	20 - 50	Computer equipment	3 - 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 budgetary basis statement is as follows:

	<u>General</u>
Government funds - net change in fund balances	\$ 797,377
Adjustments:	
To reverse the effect of non-budgeted amounts for:	
Less intergovernmental revenue - State contribution to teachers retirement	(2,978,050)
Less education expense - State contribution to teachers retirement	2,978,050
Net effect of encumbrances recorded as budget expenditures	303,448
Net effects of stabilization fund: interest income included and transfers eliminated in governmental funds	(6,317)
Adjust tax revenue to accrual basis	7,913
Plus other sources - revenue appropriation	<u>367,343</u>
Excess of revenues and other sources over expenditures and other uses (budgetary basis)	<u>\$ 1,469,764</u>

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Cash, cash equivalents, and investments

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. Investments are carried at fair value.

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).

Concentration Risk

The Town adheres to the provisions of M.G.L. c. 44, sec. 55 when managing concentration risk. M.G.L. c. 44, sec. 55 contains several restrictions limiting where and under what circumstances the Town may deposit its funds. Pursuant to M.G.L. c. 44, sec. 55, cities and towns in the Commonwealth may deposit available fund balances in banks, trust companies, or banking companies, provided that the amounts deposited do not exceed certain thresholds of the capital and surplus of an institution unless satisfactory security for the amount in excess of the threshold is provided by the depository.

Custodial credit risk - 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 fully insured by FDIC insurance, collateralized, and deposits that are not collateralized and are uninsured. Bank deposits as of June 30, 2021 were \$15,202,475 of which \$15,035,622 is insured and collateralized and \$166,853 is uninsured.

Investment Policy

The Town's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The Town adheres to an *Investment Policy Statement* which provides an understanding regarding the objectives, goals, risk tolerance, and investment guidelines for investment of the town funds. The *investment policy statement* dictates the types of investments allowed, diversification, restrictions on investments, relationship with financial institutions, and standards of care to be used by the Treasurer in the context of managing an overall investment portfolio.

Investment Fair Value

The Town categorizes its fair value measurements for investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 inputs are quoted prices available in active markets for identical assets. These instruments generally include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 inputs are significant other observable inputs where the fair value is determined through use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 inputs are significant unobservable inputs and include situations where there is little, if any, market activity for the instrument. These typically require significant management judgment or estimation.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Custodial credit risk - investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Town's investments have a custodial credit risk exposure because the related securities are uninsured, unregistered and held by the counterparty. The Town's policy for custodial credit risk is to invest funds with companies that provide a proof of credit worthiness.

Other Postemployment Benefits Liability Trust Fund

In fiscal year 2017, the Town adopted Massachusetts General Law 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 Town adheres to an OPEB *Investment Policy Statement* which dictates the types of investments allowed, diversification, restrictions on investments, relationship with financial institutions, and standards of care to be used by the Treasurer in the context of managing the overall OPEB investment portfolio.

The Town has the following investments as of June 30, 2021:

Investment Type	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Cash and equivalents	\$ 34,650	\$ 34,650	\$ -	\$ -
Certificates of deposit	36,140	36,140	-	-
U.S. Treasury securities	120,105	120,105	-	-
Common stock	59,380	59,380	-	-
Equity securities	450,439	450,439	-	-
Alternative investments	92,591	-	92,591	-
Exchange traded funds	89,524	53,650	35,874	-
Government agency	44,720	44,720	-	-
Government bonds	40,257	40,257	-	-
Corporate bonds	501,189	-	501,189	-
Total	<u>\$ 1,468,995</u>	<u>\$ 839,341</u>	<u>\$ 629,654</u>	<u>\$ -</u>

The above investments are reported in the following funds:

Governmental funds

General fund	\$ 153,143
Stabilization fund - Fire/EMS apparatus	301,748
Nonmajor funds - trust funds	<u>224,330</u>
Total governmental funds	<u>679,221</u>

Fiduciary funds

Private purpose trusts	127,500
OPEB trust fund	<u>662,274</u>
Total fiduciary funds	<u>789,774</u>

Total investments	<u><u>\$ 1,468,995</u></u>
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C. Receivables

Receivables at June 30, 2021, are as follows:

	Governmental Activities			Total Business-type Activities
	General Fund	Nonmajor Funds	Total Governmental Funds	
Real estate and personal property	\$ 464,386		\$ 464,386	
Motor vehicle excise	183,702		183,702	
Ambulance	354,674		354,674	
Other		\$ 4,336	4,336	
Water and Sewer				\$ 1,066,641
Allowance for doubtful accounts	(157,360)		(157,360)	(78,671)
Total receivables	<u>\$ 845,402</u>	<u>\$ 4,336</u>	<u>\$ 849,738</u>	<u>\$ 987,970</u>

D. Capital assets

Capital assets activity for the year ended June 30, 2021 was as follows:

	Governmental Activities			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,457,263	\$ -	\$ -	\$ 2,457,263
Construction in process	405,499	2,581,295	-	2,986,794
Total capital assets, not being depreciated	<u>2,862,762</u>	<u>2,581,295</u>	<u>-</u>	<u>5,444,057</u>
Capital assets, being depreciated:				
Buildings and improvements	30,087,861	104,100	-	30,191,961
Land improvements	1,182,882	-	-	1,182,882
Vehicles, machinery and equipment	7,751,919	150,014	-	7,901,933
Infrastructure	8,221,989	238,469	-	8,460,458
Total capital assets, being depreciated	<u>47,244,651</u>	<u>492,583</u>	<u>-</u>	<u>47,737,234</u>
Less accumulated depreciation for:				
Buildings and improvements	(15,373,116)	(716,149)	-	(16,089,265)
Land improvements	(532,033)	(59,145)	-	(591,178)
Vehicles, machinery and equipment	(6,310,702)	(287,818)	-	(6,598,520)
Infrastructure	(2,487,021)	(412,092)	-	(2,899,113)
Total accumulated depreciation	<u>(24,702,872)</u>	<u>(1,475,204)</u>	<u>-</u>	<u>(26,178,076)</u>
Total capital assets, being depreciated, net	<u>22,541,779</u>	<u>(982,621)</u>	<u>-</u>	<u>21,559,158</u>
Governmental activities capital assets, net	<u>\$ 25,404,541</u>	<u>\$ 1,598,674</u>	<u>\$ -</u>	<u>\$ 27,003,215</u>

	Business-type Activities			
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Construction in process	\$ 121,432	\$ -	\$ -	\$ 121,432
Total capital assets, not being depreciated	121,432	-	-	121,432
Capital assets, being depreciated:				
Buildings and improvements	27,510,189	-	-	27,510,189
Vehicles, machinery and equipment	2,846,205	-	-	2,846,205
Water/sewer infrastructure	24,419,311	-	-	24,419,311
Total capital assets, being depreciated	54,775,705	-	-	54,775,705
Less accumulated depreciation for:				
Buildings and improvements	(9,952,173)	(656,458)	-	(10,608,631)
Vehicles, machinery and equipment	(2,674,339)	(34,119)	-	(2,708,458)
Water/sewer infrastructure	(17,659,850)	(345,773)	-	(18,005,623)
Total accumulated depreciation	(30,286,362)	(1,036,350)	-	(31,322,712)
Total capital assets, being depreciated, net	24,489,343	(1,036,350)	-	23,452,993
Business-type activities capital assets, net	\$ 24,610,775	\$ (1,036,350)	\$ -	\$ 23,574,425

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

Governmental activities

General government	\$ 79,747
Public safety	158,385
Education	674,363
Public works	498,884
Health and human services	24,863
Cultural and recreation	38,962
Total depreciation expense, governmental activities	<u>\$ 1,475,204</u>

Business-type activities

Water	\$ 394,716
Sewer	641,634
Total depreciation expense, business-type activities	<u>\$ 1,036,350</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, 2020	Additions	Reductions	Outstanding June 30, 2021
Governmental activities						
Elementary school	2023	2.0 to 3.0	\$ 2,475,000	\$ -	\$ (800,000)	\$ 1,675,000
High school	2021	3.0 to 5.0	115,000	-	(115,000)	-
High school boiler	2021	1.25	56,192	-	(56,192)	-
Highway department truck	2021	1.25	81,438	-	(81,438)	-
Highway department truck	2021	1.25	134,195	-	(134,195)	-
Highway road paving	2021	1.74	535,104	-	(535,104)	-
High school boiler	*2022	0.37%	-	44,841	-	44,841
Highway department truck	*2022	0.37%	-	64,257	-	64,257
Highway department truck	*2022	0.37%	-	111,111	-	111,111
Highway road paving	*2022	0.62%	-	428,083	-	428,083
Total governmental activities			<u>3,396,929</u>	<u>648,292</u>	<u>(1,721,929)</u>	<u>2,323,292</u>
Business-type activities						
Water treatment plant	2035	4.50	981,179	-	(47,274)	933,905
Water treatment plant	2036	4.50	187,195	-	(8,248)	178,947
Water treatment plant	2037	4.50	2,377,494	-	(96,213)	2,281,281
Sewer plant	2027	2.00	8,301,177	-	(1,115,927)	7,185,250
Total business-type activities			<u>11,847,045</u>	<u>-</u>	<u>(1,267,662)</u>	<u>10,579,383</u>
Total			<u>\$ 15,243,974</u>	<u>\$ 648,292</u>	<u>\$ (2,989,591)</u>	<u>\$ 12,902,675</u>

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

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
2022	\$ 1,473,292	\$ 41,339	\$ 1,514,631	\$ 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	-	-	-	1,389,818	192,272	1,582,090
2026	-	-	-	1,422,384	172,288	1,594,672
2027 - 2031	-	-	-	2,339,211	475,493	2,814,704
2032 - 2036	-	-	-	1,254,075	209,428	1,463,503
2037	-	-	-	191,605	8,622	200,227
Total	<u>\$ 2,323,292</u>	<u>\$ 54,089</u>	<u>\$ 2,377,381</u>	<u>\$ 10,579,383</u>	<u>\$ 1,822,083</u>	<u>\$ 12,401,466</u>

Subsequent to fiscal year end, on December 14, 2021, the Town refinanced its water treatment plant debt in the amount \$2,999,500 (amount outstanding as of the date of refinance) and issued new debt in the amount of \$2,185,500 for road projects and equipment, for a total amount issued of \$5,185,000. As part of the refinancing, the Town received a reoffering premium, net of underwriter's discounts, of \$561,359. The interest rate on the debt (serial bonds) ranges from 2% to 5% over the life of bonds, which mature in 2037.

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 \$962,601,871 and the 5% normal debt limit available borrowing balance was approximately \$48,130,000 at June 30, 2021. The Town's outstanding debt of \$12,902,675 reduced by \$12,254,383 of debt outside the limit for the school and water and sewer facilities, results in \$648,292 of inside the limit debt outstanding. The Town's inside the limit debt available balance is approximately \$47,481,708.

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, 2021 were \$648,292. The Town has no other short-term anticipation notes outstanding at June 30, 2021.

G. Restricted fund balance on June 30, 2021

	General Fund	Nonmajor Funds	Total
Restricted:			
Debt service	\$ 64,301		\$ 64,301
Special revenue funds		\$ 4,455,952	4,455,952
Capital project funds		677,855	677,855
Expendable trust funds		35,415	35,415
Nonexpendable trust funds		192,950	192,950
Total restricted fund net assets	<u>\$ 64,301</u>	<u>\$ 5,362,172</u>	<u>\$ 5,426,473</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 60% of premiums for medical and 50% for life insurance.
Medical Coverage:	Comprehensive medical insurance offered through Blue Cross Blue Shield of Massachusetts.
Life Insurance Coverage:	Retirees are eligible for a \$5,000 life insurance benefit.

Plan Membership at June 30, 2021

Active employees	192
Inactive employees or beneficiaries currently receiving benefits	<u>191</u>
Total	<u><u>383</u></u>

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation performed as of July 1, 2019, rolled forward to the measurement date of June 30, 2021 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:	6.36%, net of OPEB plan investment expense, including inflation.
Discount Rate:	3.75% per annum
Inflation:	2.50%
Healthcare Cost Trend Rate:	4.50% per annum
Pre-retirement Mortality:	It is assumed that pre-retirement mortality is represented by the RP-2014 Blue Collar Employees Mortality Table projected generationally with Scale MP-2016 for males and females, set forward 1 year for females.
Post-retirement Mortality:	It is assumed that post-retirement mortality is represented by the RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016 for males and females, set forward 1 year for females.
Disabled Mortality:	It is assumed that disabled mortality is represented by the RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016 for males and females, set forward 1 year.

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, 2020	\$ 24,697,951	\$ 485,697	\$ 24,212,254
Changes for the year:			
Service cost	676,633		676,633
Interest	995,197		995,197
Changes in benefit terms	-		-
Changes in assumptions	966,326		966,326
Differences between actual and expected experience	-		-
Net investment income		126,577	(126,577)
Employer contributions to trust		50,000	(50,000)
Benefit payments withdrawn from trust		-	-
Benefit payments including implicit cost	(999,113)		(999,113)
Administrative expense	-	-	-
Net changes	1,639,043	176,577	1,462,466
Balances at June 30, 2021	\$ 26,336,994	\$ 662,274	\$ 25,674,720

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 investment account and are not held in a separate legal trust. Accordingly, the total assets of \$662,274 as of June 30, 2021 are reported as fiduciary funds in the Statement of Fiduciary Net Position.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.75%. 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 3.75% 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 (2.75%)	Current (3.75%)	1% Increase (4.75%)
Net OPEB liability as of June 30, 2021	\$ 29,771,883	\$ 25,674,720	\$ 22,388,628

	Healthcare Cost Trend Rate		
	1% Decrease (3.50%)	Current (4.50%)	1% Increase (5.50%)
Net OPEB liability as of June 30, 2021	\$ 22,076,892	\$ 25,674,720	\$ 30,229,276

Deferred Outflows and Inflows of Resources

At June 30, 2021, the Town reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,003,128
Changes in assumptions	2,296,367	-
Net difference between projected and actual earnings on OPEB plan investments	15,038	75,154
Total	\$ 2,311,405	\$ 2,078,282

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

Year ended June 30:	
2022	\$ (722,757)
2023	320,917
2024	319,696
2025	232,236
2026	83,031
Total deferred outflows (inflows) or resources	<u>\$ 233,123</u>

The net 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, 2021:

	Governmental Activities	Business-type Activities	Total
Net OPEB liability	\$ 25,147,831	\$ 526,889	\$ 25,674,720
Less deferred outflows of resources	2,263,972	47,433	2,311,405
Plus deferred inflows of resources	<u>2,035,632</u>	<u>42,651</u>	<u>2,078,283</u>
Net OPEB liability, net of deferred outflows and inflows of resources	<u>\$ 24,919,491</u>	<u>\$ 522,107</u>	<u>\$ 25,441,598</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, 2019 and rolled forward to the Plan's measurement date of December 31, 2020.

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, 2020, pension plan membership consisted of the following:

Active plan members	1,151
Retirees and beneficiaries receiving benefits	816
Terminated plan members entitled to but not yet receiving benefits	<u>216</u>
Total	<u>2,183</u>
Number of participating employers	<u><u>46</u></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, 2021, the Town reported a net pension liability of \$1,286,147, deferred outflows related to pensions of \$834,897, and deferred inflows related to pensions of \$1,730,275 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, 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, 2020, the Town's proportion was 10.03%. 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, 2021, the Town recognized pension expense of \$323,984 (contractually required contribution of \$1,093,511 paid into the Plan less the change in the estimated net pension liability of \$769,527). Contributions made subsequent to the measurement date of December 31, 2020 were \$-0-.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2019, rolled forward to the measurement date of December 31, 2020 using the following actuarial assumptions, applied to all periods included in the measurement date:

Investment rate of return:	7.00% 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-2014 Blue Collar Employees table projected generationally with Scale MP-2018 (gender distinct).</p> <p>Post retirement rates reflect the RP-2014 Healthy Annuitant table projected generationally with Scale MP-2018 (gender distinct).</p> <p>For disabled retirees, the rates reflect the RP-2014 Blue Collar Healthy Annuitant table set forward 1 year projected generationally with Scale MP-2018 (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, 2020 are summarized in the following table:

Asset Class	Target Asset Allocation	Weighted Long-term Expected Real Rate of Return
U.S. equity	23.10%	1.48%
International equities	14.40%	0.95%
Emerging equities	5.80%	0.49%
Hedge equity	8.80%	0.50%
Core fixed income	15.80%	1.49%
Value-added fixed income	7.40%	0.46%
Private Equity	12.60%	1.29%
Real Estate	8.30%	0.50%
Timberland	3.30%	0.22%
Portfolio completion (PBC)	0.50%	0.03%
Total	100.00%	

Changes in net pension liability

	Berkshire County Retirement System 100%			Town of Lee 10.03%		
	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, 2020	\$ 302,643,000	\$ 272,013,000	\$ 30,630,000	\$ 31,172,229	\$ 28,017,339	\$ 3,154,890
Net changes	12,527,000	30,334,000	(17,807,000)	439,322	2,308,065	(1,868,743)
Balances at December 31, 2020	<u>\$ 315,170,000</u>	<u>\$ 302,347,000</u>	<u>\$ 12,823,000</u>	<u>\$ 31,611,551</u>	<u>\$ 30,325,404</u>	<u>\$ 1,286,147</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 4,955,221	\$ 1,286,147	\$ (1,952,340)

Deferred Outflows and Inflows of Resources

At June 30, 2021, 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	\$ 10,532	\$ 12,036
Net difference between projected and actual investment earnings on pension plan assets	-	1,718,240
Changes in assumptions	824,365	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
Total	<u>\$ 834,897</u>	<u>\$ 1,730,276</u>

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

Year ended June 30,	
2022	\$ (211,232)
2023	25,877
2024	(458,873)
2025	<u>(251,151)</u>
Total	<u>\$ (895,379)</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, 2021:

	Governmental Activities	Business-type Activities	Total
Net pension liability	\$ 1,173,508	\$ 112,639	\$ 1,286,147
Less deferred outflows of resources	784,946	49,951	834,897
Plus deferred inflows of resources	<u>1,626,755</u>	<u>103,521</u>	<u>1,730,276</u>
Net pension liability, net of deferred outflows and inflows of resources	<u>\$ 2,015,317</u>	<u>\$ 166,209</u>	<u>\$ 2,181,526</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, 2021 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 2021 was \$2,978,050, 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 \$24,110,965 or 0.0845% of the collective net pension liability of \$28,544,844,000.

F. 2022 Budget

The Town has authorized a fiscal 2022 operating and capital budget which will be financed from the following sources:

Taxation	\$ 14,614,258
Local receipts	3,465,621
State payments	4,451,835
Enterprise fund receipts	3,402,890
Revenue sources appropriated from free cash	<u>1,239,049</u>
 Total budget	 <u>\$ 27,173,653</u>

TOWN OF LEE, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN NET OPEB
LIABILITY AND RELATED RATIOS**

June 30,

	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 676,633	\$ 648,640	\$ 668,045	\$ 1,160,999
Interest	995,197	936,131	910,094	946,457
Changes of benefit terms	-	-	-	-
Changes of assumptions	966,326	2,053,231	(1,910,974)	1,020,965
Differences between actual and expected experience	-	(1,187,747)	-	(6,248,285)
Benefit payments including implicit cost	(999,113)	(1,004,051)	(813,420)	(878,791)
Net change in total OPEB liability	1,639,043	1,446,204	(1,146,255)	(3,998,655)
Total OPEB liability, beginning	24,697,951	23,251,747	24,398,002	28,396,657
Total OPEB liability, ending (a)	\$ 26,336,994	\$ 24,697,951	\$ 23,251,747	\$ 24,398,002
Plan fiduciary net position				
Contributions - employer	\$ 50,000	\$ -	\$ -	\$ 60,576
Interest	-	-	-	-
Net investment income	126,577	13,700	24,216	457
Benefit payments	-	-	-	-
Administrative expense	-	-	-	-
Net change in plan fiduciary net position	176,577	13,700	24,216	61,033
Plan fiduciary net position, beginning	485,697	471,997	447,781	386,748
Plan fiduciary net position, ending (b)	\$ 662,274	\$ 485,697	\$ 471,997	\$ 447,781
Net OPEB liability (a) - (b)	\$ 25,674,720	\$ 24,212,254	\$ 22,779,750	\$ 23,950,221
Plan fiduciary net position as a percentage of the total OPEB liability	2.51%	1.97%	2.03%	1.84%
Covered employee payroll	\$ 12,924,619	\$ 12,548,174	\$ 10,728,499	\$ 9,857,000
Net OPEB liability as a percentage of covered employee payroll	198.65%	192.95%	212.33%	242.98%

Notes to Schedule:

Changes of benefit terms: None.

Changes of assumptions:

Discount rate of return changed from 4.00% to 3.75% as of June 30, 2021.

Investment rate of return changed from 6.72% to 6.36% as of June 30, 2021.

Last 10 years: Only plan years 2018 to 2021 available.

See independent auditors' report.

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

June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 1,625,530	\$ 1,994,983	\$ 1,934,733	\$ 2,386,136
Contributions in relation to the actuarially determined contribution	<u>1,049,113</u>	<u>1,004,051</u>	<u>813,420</u>	<u>939,367</u>
Contribution deficiency (excess)	<u>\$ 576,417</u>	<u>\$ 990,932</u>	<u>\$ 1,121,313</u>	<u>\$ 1,446,769</u>
Covered employee payroll	\$ 12,924,619	\$ 12,548,174	\$ 10,728,499	\$ 9,857,000
Contribution as a percentage of covered employee payroll	8.12%	8.00%	7.58%	9.53%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates were calculated as of July 1, 2019 with a measurement date of June 30, 2020.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal
Municipal bond rate:	2.18% as of June 30, 2021 (Source: S&P Municipal Bond 20-Year High Grade Index)
Discount rate:	3.75%
Inflation:	2.50% as of June 30, 2021 and for future periods
Pre- and post-retirement mortality	Mortality rates were based upon the RP-2014 Blue Collar Employees and Healthy Annuitant Mortality Tables for males or females projected generationally with scale MP-2016 for males and females, set forward 1 year for females
Disabled mortality:	Mortality rate was based upon the RP-2014 Blue Collar Healthy Annuitant Table projected with scale MP-2016 for males and females, set forward 1 year
Changes in assumptions:	Investment rate of return changed from 6.72% to 6.36%. Discount rate of return changed from 4.00% to 3.75%.
Last 10 years:	Only plan years 2018 to 2021 available.

See independent auditors' report.

TOWN OF LEE, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

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

	Plan Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
Berkshire County Retirement System net pension liability	\$ 12,823,000	\$ 30,630,000	\$ 43,744,000	\$ 25,853,000	\$ 39,772,000	\$ 42,317,000	\$ 26,259,000
Town's proportion of the net pension liability	10.03%	10.30%	10.05%	10.35%	10.09%	10.28%	10.81%
Town's proportionate share of the net pension liability	\$ 1,286,147	\$ 3,154,890	\$ 4,396,272	\$ 2,675,786	\$ 4,012,995	\$ 4,350,188	\$ 2,838,599
Town's covered-employee payroll	\$ 5,563,715	\$ 5,429,330	\$ 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	23.12%	58.11%	84.61%	52.61%	79.05%	91.24%	59.73%
Plan fiduciary net position as a percentage of the total pension liability	95.93%	89.88%	84.41%	90.41%	84.06%	82.25%	88.13%

Schedule of Town's Pension Contributions

	Plan Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
Berkshire County Retirement System contractually required contribution	\$ 10,915,000	\$ 10,203,000	\$ 9,740,000	\$ 9,297,000	\$ 8,880,000	\$ 8,482,000	\$ 8,100,000
Town's contractually required contribution	\$ 1,093,511	\$ 1,049,061	\$ 977,581	\$ 960,948	\$ 894,653	\$ 870,205	\$ 873,532
Town's contributions in relation to the contractually required contribution	(1,093,511)	(1,049,061)	(977,581)	(960,948)	(894,653)	(870,205)	(873,532)
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered-employee payroll	\$ 5,563,715	\$ 5,429,330	\$ 5,195,747	\$ 5,086,539	\$ 5,076,727	\$ 4,767,736	\$ 4,752,104
Contributions as a percentage of covered-employee payroll	19.65%	19.32%	18.82%	18.89%	17.62%	18.25%	18.38%

Notes to the Required Supplementary Information

Changes of benefit terms: None

Changes of assumptions: Changes in economic and demographic assumptions

Last 10 years: Only plan years 2014 to 2020 available

See independent auditors' report.



Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

AUDIT | TAX | ADVISORY

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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, 2021, 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 March 2, 2022.

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) as a basis for designing 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 financial statements. 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.

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ADELSON & COMPANY PC

March 2, 2022