

TOWN OF LEE, MASSACHUSETTS

**Financial Statements and
Supplementary Information**

June 30, 2016

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TOWN OF LEE, MASSACHUSETTS

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Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

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

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen 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, 2016, 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, 2016, 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 other postemployment benefits funding progress information on page 35, and the schedule of the Town's proportionate share of net pension liability and pension contributions on page 36, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 19, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Lee, Massachusetts' internal control over financial reporting and compliance.

Adelson + Company PC

ADELSON & COMPANY PC
Pittsfield, MA

January 19, 2017

Town of Lee, Massachusetts
Management's Discussion and Analysis
For the Year Ended June 30, 2016

As management of the Town of Lee, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. Readers should consider, as a whole, the information presented here along with the Town's basic financial statements that follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include General Government, Public Safety, Education, Public Works, Health and Human Services, and Culture and Recreation activities. The business-type activities include water and sewer activities.

The government-wide financial statements can be found on pages 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 34 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 \$26,801,760 at the close of the most recent fiscal year. This represents a decrease in net position over the prior fiscal year of \$51,901.

Net position of \$29,633,616 reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Borrowings are made periodically to finance significant projects.

TOWN OF LEE, MASSACHUSETTS SUMMARY STATEMENT OF NET POSITION

	2016			2015
	Governmental Activities	Business-type Activities	Totals	Totals
Current and other assets	\$ 8,511,014	\$ 3,613,704	\$12,124,718	\$ 11,078,030
Capital assets, net	24,743,551	28,693,687	53,437,238	54,774,450
Deferred outflows related to pensions	1,564,447	120,342	1,684,789	---
TOTAL ASSETS AND DEFERRED OUTFLOWS	34,819,012	32,427,733	67,246,745	65,852,480
Current liabilities	346,053	244,664	590,717	704,709
Long-term debt and related liabilities	7,167,132	16,877,622	24,044,754	25,955,367
Net pension liability	4,039,460	310,728	4,350,188	2,838,599
Post-employment benefits other than pensions	10,912,851	546,475	11,459,326	9,500,144
TOTAL LIABILITIES	22,465,496	17,979,489	40,444,985	38,998,819
Invested in capital assets, net of related debt	17,817,551	11,816,065	29,633,616	29,100,403
Restricted	2,529,035	---	2,529,035	2,336,256
Unrestricted	(7,993,070)	2,632,179	(5,360,891)	(4,582,998)
TOTAL NET POSITION	\$ 12,353,516	\$ 14,448,244	\$26,801,760	\$ 26,853,661

Statement of Activities

The Statement of Activities reflects total operating expenses for the Town as \$27,182,378 for all activities. Revenues totaled \$27,130,477 for all activities. The net change result of \$(51,901) is a reduction in net position.

TOWN OF LEE, MASSACHUSETTS
SUMMARY STATEMENT OF ACTIVITIES

	2016			2015
	Governmental Activities	Business-type Activities	Total Activities	Totals
Revenues				
Taxes	\$ 14,488,279		\$ 14,488,279	\$ 13,564,571
Charges for services	2,575,796	\$ 3,122,894	5,698,690	5,497,341
Grants and contributions	6,684,010		6,684,010	6,524,712
Penalties and fines	57,614		57,614	61,076
Interest income	19,206	17,821	37,027	34,037
Other revenues	164,857		164,857	293,046
Total revenues	<u>23,989,762</u>	<u>3,140,715</u>	<u>27,130,477</u>	<u>25,974,783</u>
Expenses				
General Government	1,585,307		1,585,307	1,711,187
Public Safety	1,521,276		1,521,276	1,412,057
Education	12,362,285		12,362,285	11,715,750
Public Works	1,207,555		1,207,555	1,764,368
Health and Human Services	602,622		602,622	534,041
Cultural and Recreation	381,016		381,016	390,294
Employee benefits	5,460,892		5,460,892	4,960,523
Intergovernmental assessments	653,985		653,985	607,037
Water and Sewer		2,778,770	2,778,770	2,688,395
Interest and fiscal charges	173,987	454,683	628,670	673,553
Total expenses	<u>23,948,925</u>	<u>3,233,453</u>	<u>27,182,378</u>	<u>26,457,205</u>
Change in net position	40,837	(92,738)	(51,901)	(482,422)
Net position, beginning	12,312,679	14,540,982	26,853,661	27,625,007
Prior period adjustment (Note 3.H.)	---	---	---	(288,924)
Net position, ending	<u>\$ 12,353,516</u>	<u>\$ 14,448,244</u>	<u>\$ 26,801,760</u>	<u>\$ 26,853,661</u>

Governmental activities net position increased by \$40,837 in fiscal year 2016. The key elements of this decrease are as follows:

- The Town recorded an increase in its other postemployment benefits liability of \$1,858,099.
- The Town recorded a decrease in its net pension liability of \$160,828, net of deferred outflows of resources related to pensions.
- The Town capitalized fixed assets of \$895,839 and recorded depreciation expense of \$1,158,114.
- The Town issued debt of \$326,000 and made principal debt payments of \$945,000.

Property Taxes

Property tax revenues recorded for the fiscal year ended June 30, 2016 reflects an increase in the Town's residential and commercial tax rate to \$14.56 from the prior fiscal year. The tax rates and valuation data over the three previous years are as follows:

	2016		2015		2014	
Real and personal property valuation	\$	912,378,464	\$	909,239,469	\$	881,460,258
Tax levy	\$	13,284,230	\$	12,802,092	\$	12,472,663
Property tax rates (per thousand)	\$	14.56	\$	14.08	\$	14.15

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 \$7,270,410. Of this amount, \$3,965,494 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 \$3,304,916 for the general fund.

The governmental fund activities for fiscal year 2016 resulted in an increase in net fund balance of \$1,125,064. Key elements of this change are as follows:

- Total revenues were \$23,769,556
- Total expenses were \$22,970,492
- Included in the expenses is capital outlay of \$895,839. These amounts are budgeted as expenses in the general fund but are capitalized on the government-wide statement of net position.
- Also included in the expenses is debt service of \$1,155,100 (\$945,000 principal repayment and \$210,100 interest expense). These amounts are budgeted as expenses in the general fund but the principal repayment of \$945,000 is a reduction of long-term debt which is reported on the government-wide statement of net position.

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

Enterprise funds

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

As of the end of the current fiscal year, the Town's enterprise funds reported a combined ending net position of \$14,448,244. Of this amount, \$11,816,065 is invested in capital assets which is net of any related debt used to acquire or construct those assets, and \$2,632,179 is unrestricted which can be used to meet the financial needs of ongoing operations.

The enterprise activities for the fiscal year 2016 resulted in a decrease in net position of \$(92,738). Key elements of this change are as follows:

- Operating revenues were \$3,122,894
- Operating expenses were \$2,778,770
- Included in operating expenses is depreciation expense of \$1,193,132.
- Also included in operating expenses is other post-employment benefits (OPEB) expense of \$101,083. The details of the OPEB can be found on pages 28, 29 and 35 of this report.
- Interest expense and fiscal charges on long-term debt was \$454,683. Principal repayment of long-term debt, which is reported on the statement of net position, was \$1,490,585.

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 \$108,250 for property tax revenue. The Town's budgeted property tax revenue of \$13,079,711 is based upon taxes levied less estimated abatements and exemptions. The actual property tax revenue received of \$12,971,461 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, 2016, collected 96% of the real estate taxes committed for fiscal year 2016.
- The Town reported a favorable budget variance of \$302,612 for collection of excise and other taxes. Specifically, the favorable variance primarily consists of \$147,600 excise tax above budget, \$74,400 room tax above budget, \$24,165 meals tax above budget, and \$52,900 in taxes related to foreclosures.
- The Town reported an unfavorable variance of \$4,140 in employee benefits, which is related to actual workman's comp and unemployment benefits exceeding budget.
- The Town reported an unfavorable variance of \$60,911 in intergovernmental assessments, relating to actual assessments for School Choice exceeding budget by \$76,560. There was also under spending of \$15,648 for Charter School costs.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets as of June 30, 2016, amounts to \$53,437,238 (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	105,099	\$ 12,188	117,287
Buildings and improvements	17,150,490	20,196,784	37,347,274
Land improvements	887,425		887,425
Machinery and equipment	1,080,492	207,296	1,287,788
Infrastructure	3,062,782	8,277,419	11,340,201
Total	<u>\$ 24,743,551</u>	<u>\$ 28,693,687</u>	<u>\$ 53,437,238</u>
Current year depreciation expense	<u>\$ 1,158,114</u>	<u>\$ 1,193,132</u>	<u>\$ 2,351,246</u>
Current year additions:			
Elementary school repairs	\$ 34,496		\$ 34,496
Town hall boiler	55,535		55,535
Library purchases	36,270		36,270
Sewer truck		\$ 33,771	33,771
Infrastructure improvements	769,538	84,424	853,962
Total	<u>\$ 895,839</u>	<u>\$ 118,195</u>	<u>\$ 1,014,034</u>

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

Long-term debt

At the end of the current fiscal year, the Town had total debt outstanding of \$23,803,622. 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, 2016

	Governmental Activities	Business-type Activities	Total
Elementary school	\$ 5,460,000		\$ 5,460,000
High school	1,140,000		1,140,000
High school boiler	126,000		126,000
Highway department truck	200,000		200,000
Water plant (multiple bonds)		\$ 4,090,221	4,090,221
Water distribution system		239,160	239,160
Sewer plant		12,548,241	12,548,241
Total	<u>\$ 6,926,000</u>	<u>\$ 16,877,622</u>	<u>\$ 23,803,622</u>

Additional information on the Town's long-term debt can be found on pages 25 and 26 of this report.

Economic Factors and next year's Budgets and Rates

- Normally state aid to the Town increases; however, with the current condition of the Commonwealth's budget, no significant increases in state aid are anticipated for several years.
- The aggregate annual increase to existing property tax revenues is limited to 2½ % allowed by M.G.L Chapter 59, Section 21C.
- The Town's fiscal year 2017 operating and capital budget can be found on page 34 of this report.

Requests for information

The financial report is designed to provide a general overview of the Town of Lee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountants office, Town Hall, 32 Main Street, Lee, MA 01238.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF NET POSITION

June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current:			
Cash and cash equivalents	\$ 7,284,262	\$ 2,577,413	\$ 9,861,675
Receivables, net	1,019,740	1,033,846	2,053,586
Other assets		2,445	2,445
Temporarily restricted cash	207,012		207,012
Noncurrent:			
Capital assets, net	24,743,551	28,693,687	53,437,238
TOTAL ASSETS	33,254,565	32,307,391	65,561,956
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	1,564,447	120,342	1,684,789
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	34,819,012	32,427,733	67,246,745
LIABILITIES			
Current:			
Warrants and other payables	112,561	8,694	121,255
Payroll and related liabilities	202,138	3,101	205,239
Accrued interest payable	31,354	232,869	264,223
Current portion of long-term debt	1,291,000	1,396,525	2,687,525
Noncurrent:			
Long-term debt, net of current portion	5,635,000	15,481,097	21,116,097
Unamortized bond premium	241,132		241,132
Net pension liability	4,039,460	310,728	4,350,188
Post-employment benefits other than pensions	10,912,851	546,475	11,459,326
TOTAL LIABILITIES	22,465,496	17,979,489	40,444,985
NET POSITION			
Invested in capital assets, net of related debt	17,817,551	11,816,065	29,633,616
Restricted for			
Special revenue funds	2,322,023		2,322,023
Conservation trust fund	4,203		4,203
Expendable trust funds	7,789		7,789
Nonexpendable trust funds	195,020		195,020
Unrestricted	(7,993,070)	2,632,179	(5,360,891)
TOTAL NET POSITION	\$ 12,353,516	\$ 14,448,244	\$ 26,801,760

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General Government	\$ 1,585,307	\$ 556,402	\$ 224,756		\$ (804,149)		\$ (804,149)
Public Safety	1,521,276	203,790	184,053		(1,133,433)		(1,133,433)
Education	12,362,285	1,747,370	4,635,098		(5,979,817)		(5,979,817)
Public Works	1,207,555	6,300	53,105	\$ 790,492	(357,658)		(357,658)
Health and Human Services	602,622	61,934	203,299		(337,389)		(337,389)
Cultural and Recreation	381,016		19,096		(361,920)		(361,920)
Employee benefits	5,460,892				(5,460,892)		(5,460,892)
Intergovernmental assessments	653,985				(653,985)		(653,985)
Interest and fiscal charges	173,987				(173,987)		(173,987)
Total governmental activities	23,948,925	2,575,796	5,319,407	790,492	(15,263,230)		(15,263,230)
Business type activities							
Water	1,461,747	1,140,689				\$ (321,058)	(321,058)
Sewer	1,771,706	1,982,205				210,499	210,499
Total business type activities	3,233,453	3,122,894	---	---	---	(110,559)	(110,559)
Total all activities	\$ 27,182,378	\$ 5,698,690	\$ 5,319,407	\$ 790,492	(15,263,230)	(110,559)	(15,373,789)
General revenues:							
Taxes					14,488,279		14,488,279
Grants and contributions not restricted to specific programs					574,111		574,111
Penalties and fines					57,614		57,614
Interest income					19,206	17,821	37,027
Other revenues					164,857		164,857
Total general revenues					15,304,067	17,821	15,321,888
CHANGE IN NET POSITION					40,837	(92,738)	(51,901)
Net position, beginning as restated (Note 3.H.)					12,312,679	14,540,982	26,853,661
NET POSITION, ENDING					\$ 12,353,516	\$ 14,448,244	\$ 26,801,760

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2016

	General	Other Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,941,441	\$ 2,342,821	\$ 7,284,262
Receivables	662,822	356,918	1,019,740
Cash - restricted		207,012	207,012
TOTAL ASSETS	<u>\$ 5,604,263</u>	<u>\$ 2,906,751</u>	<u>\$ 8,511,014</u>
LIABILITIES			
Warrants and other payables	\$ 100,220	\$ 12,341	\$ 112,561
Payroll and related liabilities	193,681	8,457	202,138
TOTAL LIABILITIES	<u>293,901</u>	<u>20,798</u>	<u>314,699</u>
DEFERRED INFLOWS OF RESOURCES			
Revenue not considered available	<u>568,987</u>	<u>356,918</u>	<u>925,905</u>
FUND BALANCES			
Restricted	209,133	2,183,145	2,392,278
Committed	686,710	345,890	1,032,600
Assigned	540,616		540,616
Unassigned	<u>3,304,916</u>		<u>3,304,916</u>
TOTAL FUND BALANCES	<u>4,741,375</u>	<u>2,529,035</u>	<u>7,270,410</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 5,604,263</u>	<u>\$ 2,906,751</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	24,743,551
Accrued interest on outstanding debt is recorded on the statement of net position, whereas in the governmental funds, interest is not reported until due	(31,354)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(7,167,132)
Net pension liability	(2,475,013)
Postemployment benefits other than pensions	(10,912,851)
Revenues are reported on the accrual basis of accounting and not deferred	<u>925,905</u>
Net position of governmental activities	<u>\$ 12,353,516</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, 2016

	General	Other Nonmajor Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 12,971,461		\$ 12,971,461
Excise and other taxes	1,296,612		1,296,612
Licenses and permits	23,681		23,681
Charges for services	564,438	\$ 1,987,677	2,552,115
Penalties and fines	57,614		57,614
Intergovernmental	4,851,771	1,832,239	6,684,010
Interest income	17,522	1,684	19,206
Other revenues	<u>9,135</u>	<u>155,722</u>	<u>164,857</u>
TOTAL REVENUES	<u>19,792,234</u>	<u>3,977,322</u>	<u>23,769,556</u>
EXPENDITURES			
General government	1,128,630	433,023	1,561,653
Public safety	1,274,429	124,717	1,399,146
Education	9,849,454	1,903,418	11,752,872
Public works	946,725	804,316	1,751,041
Health and human services	190,041	391,655	581,696
Cultural and recreation	332,183	19,195	351,378
Employee benefits	3,763,621		3,763,621
Intergovernmental assessments	653,985		653,985
Debt service:			
Principal retirement	945,000		945,000
Interest and fiscal charges	<u>210,100</u>		<u>210,100</u>
TOTAL EXPENDITURES	<u>19,294,168</u>	<u>3,676,324</u>	<u>22,970,492</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>498,066</u>	<u>300,998</u>	<u>799,064</u>
OTHER FINANCING SOURCES (USES)			
Other financing sources - bond proceeds		326,000	326,000
Transfers in	146,319	47,353	193,672
Transfers out	<u>(1,024)</u>	<u>(192,648)</u>	<u>(193,672)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>145,295</u>	<u>180,705</u>	<u>326,000</u>
Net change in fund balances	643,361	481,703	1,125,064
Fund balances, beginning as restated (Note 3.H.)	<u>4,098,014</u>	<u>2,047,332</u>	<u>6,145,346</u>
FUND BALANCES, ENDING	<u>\$ 4,741,375</u>	<u>\$ 2,529,035</u>	<u>\$ 7,270,410</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, 2016

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,125,064
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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	895,839
Depreciation expense	(1,158,114)

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

220,206

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	(326,000)
Debt principal payments	945,000

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

Decrease in unamortized bond premium	40,188
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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:

Increase in accrued interest payable	(4,075)
Decrease in net pension liability, net of deferred outflows of resources	160,828
Increase in postemployment benefits other than pensions	(1,858,099)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 40,837
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TOWN OF LEE, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS) - GENERAL FUNDS

For the Year Ended June 30, 2016

	General Fund		
	Budget		Variance -
	Final	Actual	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 13,079,711	\$ 12,971,461	\$ (108,250)
Excise and other taxes	994,000	1,296,612	302,612
Licenses and permits	23,400	23,681	281
Charges for services	485,956	564,438	78,482
Penalties and fines	61,000	57,614	(3,386)
Intergovernmental	3,464,476	3,368,344	(96,132)
Interest income	8,000	12,735	4,735
Other revenues	5,000	9,135	4,135
TOTAL REVENUES	18,121,543	18,304,020	182,477
EXPENDITURES			
General government	1,271,076	1,054,620	216,456
Public safety	1,435,465	1,269,187	166,278
Education	8,366,027	8,366,027	---
Public works	1,515,154	1,363,574	151,580
Health and human services	207,267	195,379	11,888
Culture and recreation	355,970	332,242	23,728
Employee benefits	3,759,481	3,763,621	(4,140)
Intergovernmental assessments	593,074	653,985	(60,911)
Debt service:			
Principal retirement	945,000	945,000	---
Interest and fiscal charges	210,850	209,350	1,500
TOTAL EXPENDITURES	18,659,364	18,152,985	506,379
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(537,821)	151,035	688,856
OTHER FINANCING SOURCES (USES)			
Transfers in	55,800	201,319	145,519
Transfers out	---	(1,024)	(1,024)
Revenue appropriation	482,021	482,021	---
TOTAL OTHER FINANCING SOURCES	537,821	682,316	144,495
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ ---	\$ 833,351	\$ 833,351

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2016

	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 609,501	\$ 1,967,912	\$ 2,577,413
Accounts receivable from customers (net of allowance for uncollectibles)	393,044	640,802	1,033,846
Tax liens and foreclosures	1,526	919	2,445
Total current assets	1,004,071	2,609,633	3,613,704
Capital assets, net	9,168,735	19,524,952	28,693,687
TOTAL ASSETS	10,172,806	22,134,585	32,307,391
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	60,171	60,171	120,342
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	10,232,977	22,194,756	32,427,733
LIABILITIES			
Current liabilities			
Warrants and other payables	6,244	2,450	8,694
Payroll and related liabilities	2,596	505	3,101
Accrued interest	112,537	120,332	232,869
Current portion of long-term debt	366,398	1,030,127	1,396,525
Noncurrent liabilities			
Long-term debt, net of current portion	3,962,983	11,518,114	15,481,097
Net pension liability	155,364	155,364	310,728
Post-employment benefits other than pensions	308,821	237,654	546,475
TOTAL LIABILITIES	4,914,943	13,064,546	17,979,489
NET POSITION			
Invested in capital assets, net of related debt	4,839,354	6,976,711	11,816,065
Unrestricted	478,680	2,153,499	2,632,179
TOTAL NET POSITION	\$ 5,318,034	\$ 9,130,210	\$ 14,448,244

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, 2016

	Enterprise Funds		
	Water	Sewer	Total
Operating revenues			
Charges for services	\$ 1,138,865	\$ 1,975,954	\$ 3,114,819
Other revenue	1,824	6,251	8,075
Total operating revenues	<u>1,140,689</u>	<u>1,982,205</u>	<u>3,122,894</u>
Operating expenses			
Salaries and wages	541,155	318,203	859,358
Operating expenses	109,691	426,385	536,076
Materials and supplies	91,733	79,489	171,222
Depreciation expense	526,494	666,638	1,193,132
Capital outlay - small equipment purchases	3,843	15,139	18,982
Total operating expenses	<u>1,272,916</u>	<u>1,505,854</u>	<u>2,778,770</u>
OPERATING INCOME (LOSS)	<u>(132,227)</u>	<u>476,351</u>	<u>344,124</u>
Nonoperating revenues (expenses)			
Interest income	5,725	12,096	17,821
Interest and fiscal charges	<u>(188,831)</u>	<u>(265,852)</u>	<u>(454,683)</u>
Total nonoperating revenues (expenses)	<u>(183,106)</u>	<u>(253,756)</u>	<u>(436,862)</u>
CHANGE IN NET POSITION	(315,333)	222,595	(92,738)
Net position, beginning	<u>5,633,367</u>	<u>8,907,615</u>	<u>14,540,982</u>
NET POSITION, ENDING	<u>\$ 5,318,034</u>	<u>\$ 9,130,210</u>	<u>\$ 14,448,244</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2016

	Enterprise Funds		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,052,609	\$ 1,834,601	\$ 2,887,210
Payments to suppliers	(207,754)	(527,038)	(734,792)
Payments to employees	(483,898)	(289,578)	(773,476)
Net cash provided (used) by operating activities	<u>360,957</u>	<u>1,017,985</u>	<u>1,378,942</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>5,725</u>	<u>12,096</u>	<u>17,821</u>
Net cash used by investing activities	<u>5,725</u>	<u>12,096</u>	<u>17,821</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for property and equipment	(48,913)	(69,282)	(118,195)
Principal paid on debt	(465,856)	(1,024,729)	(1,490,585)
Proceeds from issuance of debt	239,160	---	239,160
Interest and fees paid on debt	(191,853)	(276,051)	(467,904)
Net cash used by capital and related financing activities	<u>(467,462)</u>	<u>(1,370,062)</u>	<u>(1,837,524)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	(100,780)	(339,981)	(440,761)
Cash and equivalents, beginning	<u>710,281</u>	<u>2,307,893</u>	<u>3,018,174</u>
CASH AND EQUIVALENTS, ENDING	<u>\$ 609,501</u>	<u>\$ 1,967,912</u>	<u>\$ 2,577,413</u>
	Water	Sewer	Totals
	Enterprise	Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (132,227)	\$ 476,351	\$ 344,124
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Cash flows reported in other categories			
Depreciation	526,494	666,638	1,193,132
(Increase) decrease in operating assets:			
Accounts receivable	(88,080)	(147,604)	(235,684)
Increase (decrease) in operating liabilities:			
Warrants and other payables	(4,821)	(6,520)	(11,341)
Net pension liability	(6,186)	(6,186)	(12,372)
Other post-employment benefit liability	<u>65,777</u>	<u>35,306</u>	<u>101,083</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 360,957</u>	<u>\$ 1,017,985</u>	<u>\$ 1,378,942</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	Private-Purpose Trust Funds	Other Post Employment Benefits Trust Fund	Total	Agency Funds
ASSETS				
Cash	\$ 198,237	\$ 332,599	530,836	\$ 151,107
TOTAL ASSETS	<u>198,237</u>	<u>332,599</u>	<u>530,836</u>	<u>151,107</u>
LIABILITIES				
Warrants and other payables	---	---	---	---
Deposits held in custody	<u>---</u>	<u>---</u>	<u>---</u>	<u>151,107</u>
TOTAL LIABILITIES	<u>---</u>	<u>---</u>	<u>---</u>	<u>151,107</u>
NET POSITION				
Restricted, held in trust	<u>\$ 198,237</u>	<u>\$ 332,599</u>	<u>\$ 530,836</u>	<u>\$ ---</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	Private-Purpose Expendable Trust Funds	Other Post Employment Benefits Trust Fund	Totals
ADDITIONS			
Contributions	\$ ---	\$ ---	\$ ---
Other income	---	42,871	42,871
Investment earnings:			
Interest	<u>12,079</u>	<u>804</u>	<u>12,883</u>
TOTAL ADDITIONS	<u>12,079</u>	<u>43,675</u>	<u>55,754</u>
DEDUCTIONS			
Trust purpose expenditures	33,245	---	33,245
Benefits	<u>---</u>	<u>---</u>	<u>---</u>
TOTAL DEDUCTIONS	<u>33,245</u>	<u>---</u>	<u>33,245</u>
CHANGE IN NET POSITION	(21,166)	43,675	22,509
Net position, beginning as restated (Note 3.H.)	<u>219,403</u>	<u>288,924</u>	<u>508,327</u>
NET POSITION, ENDING	<u>\$ 198,237</u>	<u>\$ 332,599</u>	<u>\$ 530,836</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS**Notes to Financial Statements****June 30, 2016****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Reporting entity**

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

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

Discretely presented component units. The Town has considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. In fiscal year 2016, it was determined that no entities met the required governmental accounting standards board criteria for component units.

B. Government-wide and fund financial statements***Government-wide financial statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the reporting government as a whole. They include all funds of the reporting entity except fiduciary funds. Governmental activities generally are supported by taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are supported in whole or in part by fees charged to external parties for goods or services.

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

Fund financial statements

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

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

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

The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The *governmental fund financial statements* are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are recorded in the year levied as receivables and deferred inflows of resources. Property taxes collected up to 60 days after the fiscal year end are included in the current fiscal year revenues with the remaining recognized as revenues in the succeeding year when services financed by the levy are provided. Intergovernmental aids and grants are recognized as revenues in the period the Town is entitled to the resources and the amounts are available. Amounts owed to the Town which are not available are recorded as receivables and deferred inflows of resources. Amounts received prior to the entitlement period are also recorded as deferred inflows of resources.

The Town reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary funds:

The Water and Sewer Funds account for the enterprise activities of the Town.

The Town reports the following Fiduciary Funds:

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, maintenance and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Accounting estimates

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

Subsequent events

Management has evaluated subsequent events through January 19, 2017, 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 2016 levy was \$912,378,464. A tax rate of \$14.56 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 2016, the Town’s tax levy was \$13,284,230, which was below both its levy limit of \$14,961,943 (levy limit of \$14,271,846 plus debt exclusions of \$690,097) and levy ceiling of \$22,809,462.

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

Inventories and prepaid items

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

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Enterprise funds during the current fiscal year was \$454,683, none of which required capitalization.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

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

Compensated absences

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

Long-term obligations

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

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

Government-wide and proprietary net positions

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

Invested in capital assets, net of related debt

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

Restricted

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

Unrestricted

All other net assets are reported in this category.

Governmental fund balances

The Town has implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources reported in its financial statements.

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

All amounts not included in other spendable classifications.

Encumbrances and continuing appropriations

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

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

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

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

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

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

	<u>General</u>
Government funds - net change in fund balances	\$ 643,361
Adjustments:	
To reverse the effect of non-budgeted amounts for:	
Less intergovernmental revenue - State contribution to teachers retirement	(1,483,427)
Less education expense - State contribution to teachers retirement	1,483,427
Net effect of encumbrances recorded as budget expenditures	(342,244)
Net effects of stabilization fund: interest income included and transfers eliminated in governmental funds	50,213
Plus other sources - revenue appropriation	<u>482,021</u>
Excess of revenues and other sources over expenditures and other uses (budgetary basis)	<u>\$ 833,351</u>

NOTE 3 - DETAILED NOTES ON ALL FUNDS**A. Cash and equivalents**

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

B. Deposits and investments

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

Custodial credit risk related to deposits

Custodial Credit Risk is the risk that in the event of bank failure, the Town's deposits may not be returned. The Town carries deposits that are insured by FDIC or State depository insurance or collateralized. Bank deposits as of June 30, 2016 were \$11,578,315 of which \$10,635,840 was fully insured or collateralized and \$942,475 was uninsured and uncollateralized.

C. Receivables

Receivables at June 30, 2016, are as follows:

	Governmental Activities			Total
	General Fund	Nonmajor Funds	Governmental Funds	Business-type Activities
Property and excise taxes	\$ 714,389		\$ 714,389	
Tax liens and foreclosures	158,749		158,749	
Accounts receivable		\$ 419,902	419,902	
Water and Sewer			---	\$ 1,216,290
Allowance for doubtful accounts	(210,316)	(62,984)	(273,300)	(182,444)
Total receivables	<u>\$ 662,822</u>	<u>\$ 356,918</u>	<u>\$ 1,019,740</u>	<u>\$ 1,033,846</u>

D. Capital assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Governmental Activities			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,457,263	\$ ---	\$ ---	\$ 2,457,263
Construction in process	105,099	---	---	105,099
Total capital assets, not being depreciated	<u>2,562,362</u>	<u>---</u>	<u>---</u>	<u>2,562,362</u>
Capital assets, being depreciated:				
Buildings and improvements	29,622,948	90,031	---	29,712,979
Land improvements	1,182,882	---	---	1,182,882
Machinery and equipment	6,546,726	36,270	(78,232)	6,504,764
Infrastructure	<u>3,653,710</u>	<u>769,538</u>	<u>---</u>	<u>4,423,248</u>
Total capital assets, being depreciated	<u>41,006,266</u>	<u>895,839</u>	<u>(78,232)</u>	<u>41,823,873</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,865,862)	(696,627)	---	(12,562,489)
Land improvements	(236,313)	(59,144)	---	(295,457)
Machinery and equipment	(5,267,111)	(235,393)	78,232	(5,424,272)
Infrastructure	<u>(1,193,516)</u>	<u>(166,950)</u>	<u>---</u>	<u>(1,360,466)</u>
Total accumulated depreciation	<u>(18,562,802)</u>	<u>(1,158,114)</u>	<u>78,232</u>	<u>(19,642,684)</u>
Total capital assets, being depreciated, net	<u>22,443,464</u>	<u>(262,275)</u>	<u>---</u>	<u>22,181,189</u>
Governmental activities capital assets, net	<u>\$ 25,005,826</u>	<u>\$ (262,275)</u>	<u>\$ ---</u>	<u>\$ 24,743,551</u>
	Business-type Activities			
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Construction in process	\$ 12,188	\$ ---	\$ ---	\$ 12,188
Total capital assets, not being depreciated	<u>12,188</u>	<u>---</u>	<u>---</u>	<u>12,188</u>
Capital assets, being depreciated:				
Buildings and improvements	27,510,189	---	---	27,510,189
Machinery and equipment	2,635,527	33,771	(21,750)	2,647,548
Water/sewer infrastructure	<u>24,220,528</u>	<u>84,424</u>	<u>---</u>	<u>24,304,952</u>
Total capital assets, being depreciated	<u>54,366,244</u>	<u>118,195</u>	<u>(21,750)</u>	<u>54,462,689</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,651,771)	(661,634)	---	(7,313,405)
Machinery and equipment	(2,352,862)	(109,140)	21,750	(2,440,252)
Water/sewer infrastructure	<u>(15,605,175)</u>	<u>(422,358)</u>	<u>---</u>	<u>(16,027,533)</u>
Total accumulated depreciation	<u>(24,609,808)</u>	<u>(1,193,132)</u>	<u>21,750</u>	<u>(25,781,190)</u>
Total capital assets, being depreciated, net	<u>29,756,436</u>	<u>(1,074,937)</u>	<u>---</u>	<u>28,681,499</u>
Business-type activities capital assets, net	<u>\$ 29,768,624</u>	<u>\$ (1,074,937)</u>	<u>\$ ---</u>	<u>\$ 28,693,687</u>

D. Capital assets (continued)

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

Governmental activities

General government	\$	79,189
Public safety		122,130
Education		643,909
Public works		226,052
Health and human services		20,926
Cultural and recreation		<u>65,908</u>
Total depreciation expense, governmental activities	\$	<u>1,158,114</u>

Business-type activities

Water	\$	526,494
Sewer		<u>666,638</u>
Total depreciation expense, business-type activities	\$	<u>1,193,132</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, 2015	Additions	Reductions	Outstanding June 30, 2016
Governmental activities						
Elementary school	2023	2.0 to 3.0	\$ 6,175,000	\$ ---	\$ (715,000)	\$ 5,460,000
High school	2021	3.0 to 5.0	1,370,000	---	(230,000)	1,140,000
High school boiler	*2017	0.79%	---	126,000	---	126,000
Highway department truck	*2017	0.79%	---	200,000	---	200,000
Total governmental activities			<u>7,545,000</u>	<u>326,000</u>	<u>(945,000)</u>	<u>6,926,000</u>
Business-type activities						
Water treatment plant	2035	4.50%	1,188,711	---	(37,935)	1,150,776
Water treatment plant	2036	4.50%	223,404	---	(6,619)	216,785
Water treatment plant	2037	4.50%	2,799,866	---	(77,206)	2,722,660
Water tank	2016	2.00%	15,000	---	(15,000)	---
Sewer plant	2027	2.00%	13,557,970	---	(1,009,729)	12,548,241
Water distribution system	2016	0.53%	344,096	---	(344,096)	---
Water distribution system	*2017	0.79%	---	239,160	---	239,160
Total business-type activities			<u>18,129,047</u>	<u>239,160</u>	<u>(1,490,585)</u>	<u>16,877,622</u>
Total			<u>\$ 25,674,047</u>	<u>\$ 565,160</u>	<u>\$ (2,435,585)</u>	<u>\$ 23,803,622</u>

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

E. Long-term debt (continued)

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

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 1,291,000	\$ 182,450	\$ 1,473,450	\$ 1,396,525	\$ 429,338	\$ 1,825,863
2018	985,000	155,850	1,140,850	1,183,902	398,187	1,582,089
2019	1,010,000	131,000	1,141,000	1,211,117	370,973	1,582,090
2020	1,050,000	101,475	1,151,475	1,239,031	343,060	1,582,091
2021	915,000	66,850	981,850	1,267,662	314,428	1,582,090
2022 - 2026	1,675,000	50,625	1,725,625	6,794,492	1,115,958	7,910,450
2027 - 2031	---	---	---	2,339,211	488,075	2,827,286
2032 - 2036	---	---	---	1,254,077	209,428	1,463,505
2037	---	---	---	191,605	8,622	200,227
Total	<u>\$ 6,926,000</u>	<u>\$ 688,250</u>	<u>\$ 7,614,250</u>	<u>\$ 16,877,622</u>	<u>\$ 3,678,069</u>	<u>\$ 20,555,691</u>

On October 15, 2013, the Town refinanced the Elementary School bonds due in 2023. As part of the refinancing the Town received a reoffering premium, net of underwriter's discounts, which is reported as unamortized bond premium in the government-wide statement of net position. This premium is amortized over the remaining life of the debt, to be fully amortized by 2023. The balance of the unamortized premium as of June 30, 2016 is \$241,132.

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 \$912,378,464 and the 5% normal debt limit available borrowing balance was \$45,618,923 at June 30, 2016. The Town's outstanding debt of \$23,803,622 reduced by \$22,098,462 of debt outside the limit for the school and water and sewer facilities, results in \$1,705,160 of inside the limit debt outstanding. The Town's inside the limit debt available balance is \$43,913,763.

F. Temporary Borrowings

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

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

The Town is financing certain water and sewer system improvements, the replacement of the boiler at the high school, and the purchase of a dump truck for the highway department, by rolling over short-term bonds for lesser amounts each year. The total short-term bonds outstanding at June 30, 2016 were \$565,160. The Town has no other short-term anticipation notes outstanding at June 30, 2016.

G. Restricted fund balance on June 30, 2016

	General Fund	Nonmajor Funds	Total
Restricted:			
Debt service	\$ 209,133		\$ 209,133
Special purposes		\$ 1,980,336	1,980,336
Expendable trust funds		7,789	7,789
Nonexpendable trust funds		195,020	195,020
Total restricted fund net assets	<u>\$ 209,133</u>	<u>\$ 2,183,145</u>	<u>\$ 2,392,278</u>

H. Prior Period Adjustment

Net position and fund balance as of June 30, 2015 have been restated as follows to report the Town's *Other Post Employment Benefits Trust Fund* as a Fiduciary Fund.

	Government-wide Financial Statements	Fund Financial Statements	
	Governmental Activities	Governmental Funds	Fiduciary Funds
Net position / fund balance as previously reported at June 30, 2015	\$ 12,601,603	\$ 6,434,270	\$ 219,403
Prior period adjustments:			
Report Other Post Employment Benefits Trust Fund as a Fiduciary Fund	(288,924)	(288,924)	288,924
Net position / fund balance as restated, June 30, 2015	<u>\$ 12,312,679</u>	<u>\$ 6,145,346</u>	<u>\$ 508,327</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 Post-employment benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of activities when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

Plan Description and Funding Policy

The Town provides medical, prescription drug, mental health/substances abuse and life insurance to retirees and their covered dependents. Retirees contribute 40% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

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

	Year Ended June 30, 2016
Annual Required Contribution (ARC)	\$ 2,916,963
Interest on net OPEB obligation	427,506
Adjustment to ARC	<u>(370,863)</u>
Annual OPEB cost (expense)	2,973,606
Contributions made	<u>1,014,424</u>
Increase in net OPEB obligation	1,959,182
Net OPEB obligation, beginning of year	<u>9,500,144</u>
Net OPEB obligation, end of year	<u>\$ 11,459,326</u>

Net OPEB Obligation by segment

Water Fund	\$ 308,821
Sewer Fund	237,654
Other Town and school funds	<u>10,912,851</u>
Total	<u>\$ 11,459,326</u>

Three Year Trend Information

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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Pay
6/30/2014	\$ 2,166,329	44.76%	\$ 7,571,628	\$ 9,961,000	21.75%
6/30/2015	\$ 2,809,949	31.37%	\$ 9,500,144	\$ 9,922,000	28.32%
6/30/2016	\$ 2,973,605	34.11%	\$ 11,459,326	\$ 9,857,000	30.17%

Trust Fund

The Town has adopted Massachusetts General Law Chapter 32B, Section 20, which authorized the establishment of a separate fund, known as the *Other Post Employment Benefits (OPEB) Trust Fund*, and other provisions as outlined in said statute. The Town reports the OPEB Trust Fund as a fiduciary fund.

The activity in the Trust Fund for the fiscal year 2016 is as follows:

	<u>Trust Fund</u>
Balance at June 30, 2015	\$ 288,924
Deposits	42,871
Interest income	<u>804</u>
Balance at June 30, 2016	<u>\$ 332,599</u>

Methods and Assumptions

Valuation date	6/30/2014
Actuarial cost method	Projected Unit Credit
Amortization method	Amortization payments increasing at 3.5%
Amortization period	30 years open
Remaining amortization period at 6/30/2016	23 years
Asset valuation method	Market value
Discount rate	4.50%
Asset rate of return	7.50%
Medical/drug cost trend rate	Under 65: 8.5% decreasing by 0.5% for 7 years to an ultimate level of 5.0% per year.
	Over 65: 10% decreasing by 0.5% for 10 years to an ultimate level of 5.0% per year.
Dental	5.0%
Part B reimbursement and/or penalties	5.0%
Inflation rate	3.50%

Plan membership

Current retirees, beneficiaries, and dependents	155
Current active members	<u>150</u>
Total	<u>305</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 45 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, 2015 and rolled forward to the Plan’s measurement date of December 31, 2015.

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, 2015, pension plan membership consisted of the following:

Active plan members	1,134
Retirees and beneficiaries receiving benefits	728
Terminated plan members entitled to but not yet receiving benefits	<u>224</u>
Total	<u>2,086</u>
Number of participating employers	<u>45</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 inflows and outflows of resources

At June 30, 2016, the Town reported a liability of \$4,350,188 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, 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, 2015, the Town's proportion was 10.28%. 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, 2016, the Town recognized pension expense (reduction) of \$(173,200). Contributions made subsequent to the measurement date of December 31, 2015 were \$-0-.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ ---	\$ 249,290
Net difference between projected and actual investment earnings on pension plan assets	1,144,575	---
Changes in assumptions	789,504	---
Changes in proportion and differences between employer contributions and proportionate share of contributions	---	---
Contributions subsequent to the measurement date	---	---
Total	<u>\$ 1,934,079</u>	<u>\$ 249,290</u>

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

Plan year ended December 31,

2016	\$ 423,536
2017	423,536
2018	423,536
2019	414,181

(Continued)

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2015, rolled forward to the measurement date of December 31, 2015 using the following actuarial assumptions, applied to all periods included in the measurement date:

Investment rate of return:	7.60% net of pension plan investment expense, including inflation.
Salary increases:	Select and ultimate by job group; ultimate rates 4.25% for Group 1 and 4.75% for Group 4.
Inflation:	Not explicitly assumed.
Cost of Living Adjustment	3% of first \$14,000.
Mortality:	<p>Pre-retirement rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).</p> <p>Post retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).</p> <p>For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).</p>

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

Target allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rate of return for each major asset class included in the Plan's targeted asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-term Expected Real Rate of Return
Large Cap Equities	15%	8%	1.09%
Small/Mid Cap Equities	4%	8%	0.27%
International Equities	16%	8%	1.28%
Emerging International Equities	6%	9%	0.56%
High-Yield Bonds	2%	6%	0.09%
Bank Loans	2%	6%	0.09%
EMD (External)	1%	6%	0.06%
EMD (Local Currency)	2%	7%	0.14%
TIPS	3%	4%	0.12%
Core Bonds	3%	4%	0.12%
20+ Year Treasury STRIPS	7%	4%	0.28%
Private Equity	10%	10%	0.95%
Private Debt	4%	8%	0.32%
Real Estate (Core)	10%	7%	0.65%
Hedge Funds	9%	7%	0.61%
Timber/Natural Resources	4%	7%	0.27%
Portfolio Completion Strategies	4%	N/A	N/A
Total	100%		

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. 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 7.60%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Town's proportionate share of the net pension liability	\$ 7,150,460	\$ 4,350,188	\$ 1,978,180

Changes in net pension liability

	Berkshire County Retirement System 100%			Town of Lee 10.28%		
	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, 2015	\$ 221,256,000	\$ 194,997,000	\$ 26,259,000	\$ 23,917,773	\$ 21,079,174	\$ 2,838,599
Net changes	17,193,000	1,135,000	16,058,000	594,784	(916,805)	1,511,589
Balances at December 31, 2015	<u>\$ 238,449,000</u>	<u>\$ 196,132,000</u>	<u>\$ 42,317,000</u>	<u>\$ 24,512,557</u>	<u>\$ 20,162,369</u>	<u>\$ 4,350,188</u>

The net pension liability and deferred outflows of resources is reported in the Town's Statement of Net Position as follows for the year end June 30, 2016:

	Governmental Activities	Business-type Activities	Total
Deferred outflows of resources	<u>\$ 1,564,447</u>	<u>\$ 120,342</u>	<u>\$ 1,684,789</u>
Net pension liability	<u>\$ 4,039,460</u>	<u>\$ 310,728</u>	<u>\$ 4,350,188</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, 2016, 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 2016 was \$1,483,427 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 \$18,289,324 or 0.0893% of the collective net pension liability of \$20,489,643,081.

F. 2017 Budget

The Town has authorized a fiscal 2017 operating and capital budget which will be financed from the following sources:

Taxation	\$ 13,435,231
Local receipts	1,978,310
State payments	4,099,963
Enterprise fund receipts	3,375,196
Revenue sources appropriated from free cash	636,005
Revenue sources appropriated from other sources	<u>694,163</u>
Total budget	<u>\$ 24,218,868</u>

TOWN OF LEE, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

Schedule of Retiree Health Plan Funding Progress
Other Postemployment Benefits

Other Postemployment Benefits Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (AAL) ((b-a)/c)
6/30/2010	\$ ---	\$ 30,759,025	\$ 30,759,025	0.00%	N/A	N/A
6/30/2012	\$ 140,794	\$ 25,539,202	\$ 25,398,408	0.55%	\$ 9,946,900	255.34%
6/30/2014	\$ 288,205	\$ 35,015,174	\$ 34,726,969	0.82%	\$ 9,961,000	348.63%
6/30/2016	\$ 332,599	\$ 39,313,927	\$ 38,981,328	0.85%	\$ 9,857,000	395.47%

See independent auditors' report.

TOWN OF LEE, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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

	Plan Year Ended December 31,	
	2015	2014
Berkshire County Retirement System net pension liability	\$ 42,317,000	\$ 26,259,000
Town's proportion of the net pension liability	10.28%	10.81%
Town's proportionate share of the net pension liability	\$ 4,350,188	\$ 2,838,599
Town's covered-employee payroll	\$ 4,767,736	\$ 4,752,104
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	91.24%	59.73%
Plan fiduciary net position as a percentage of the total pension liability	82.25%	88.13%

Schedule of Town's Pension Contributions

	Plan Year Ended December 31,	
	2015	2014
Berkshire County Retirement System contractually required contribution	\$ 8,482,000	\$ 8,100,000
Contractually required contribution	\$ 870,205	\$ 873,532
Contributions in relation to the contractually required contribution	(870,205)	(873,532)
Contribution deficiency (excess)	\$ ---	\$ ---
Town's covered-employee payroll	\$ 4,767,736	\$ 4,752,104
Contributions as a percentage of covered-employee payroll	18.25%	18.38%

Notes to the Required Supplementary Information

Changes of benefit terms: None

Changes of assumptions: Investment rate of return was reduced from 7.75% in 2013 to 7.60% in 2015.

Scale used for mortality tables changed from AA to BB

Last 10 years: Only plan year 2014 and 2015 available

See independent auditors' report.



Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

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

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

To the Board of Selectmen
TOWN OF LEE, MASSACHUSETTS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of Town of Lee, Massachusetts, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Town of Lee, Massachusetts' basic financial statements, and have issued our report thereon dated January 19, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Adelson + Company PC

ADELSON & COMPANY PC
Pittsfield, MA

January 19, 2017

