

THE TOWN OF LEE, MASSACHUSETTS

The Town of Lee incorporated in 1777 and is governed by a representative town meeting form of government.

CONSTITUTIONAL STATUS AND FORM OF GOVERNMENT

Massachusetts cities and towns are subject to the plenary legislative power of the Commonwealth. As stated by the Supreme Judicial Court:

A town is not an independent sovereignty. It is merely a subordinate agency of the State Government. It is a creature of the Commonwealth, from which are derived all its powers and those of its voters and officers.

Cities and towns provide general governmental services at the local level. Municipalities were traditionally authorized to exercise only those powers granted by the State legislature, but Massachusetts adopted a Home Rule Amendment to its Constitution in 1966, under which a city or town may exercise by ordinance or by-law any power which the State legislature could confer upon it, provided that the ordinance or by-law is consistent with the laws enacted by the State legislature. Certain powers are excluded from home rule and may still be exercised only when authorized by State law; these powers include the power to levy taxes, the power to borrow money, and the power to enact private or civil law governing civil relationships except as an incident to the exercise of an independent municipal power. Under the Home Rule Amendment the State legislature may enact general laws relating to a class of two or more municipalities but (except in limited circumstances) may enact a special law relating to a particular city or town only on request of the city or town or on recommendation of the Governor and passage by a two-thirds vote of both houses of the legislature.

An amendment to the State Constitution provides that any law imposing additional costs on two or more cities or towns by regulating aspects of municipal employment will not be effective within a city or town until the city council or town meeting accepts the law. Local acceptance will not be required if the legislature has either passed the law by a two-thirds vote or provided that the additional costs would be assumed by the State.

Cities and towns may change their form of government by adopting home rule charters or amending existing charters. A town of less than 12,000 population may not change to a city form of government and a town of less than 6,000 inhabitants may not change from the open town meeting form of government to a limited or representative town meeting form.

Cities are generally governed by a city council and an elected mayor who has the power to veto council actions; the council may override a mayoral veto by a two-thirds vote of the councilors. Some cities are governed by a city council and an appointed city manager who has no power to veto council actions; some municipalities, although still called "towns," have adopted a similar city form of government with a town council and town manager or administrator. Provision is often made for a referendum on council actions, and for initiation of measures, upon petition of a sufficient number of voters.

Most towns are governed by open town meetings in which any voter may participate. Others have an elected representative town meeting, often with public officers serving as ex officio members of the town meeting. Provision is usually made for a referendum on actions of the representative town meeting upon petition of a sufficient number of voters. Administrative affairs are generally managed by a board of three or more selectmen, sometimes with the assistance of a town manager or executive secretary.

School affairs of cities and towns are administered by an elected school committee except in those towns whose educational functions are carried out entirely through a regional school district.

GOVERNING BODIES AND OFFICERS

Local legislative decisions are made by a representative town meeting consisting of fifty-four registered voters in the Town. Subject to the legislative decisions made by the town meeting, the affairs of the Town are generally administered by a Select Board made up of three members who are elected on an at-large basis for staggered three-year terms.

School affairs are administered by an elected school committee of six persons, while local taxes are assessed by a board of three assessors, appointed for staggered three year terms on an at-large basis.

The following is a list of the principal executive officers:

<u>Office</u>	<u>Name</u>	<u>Manner of Selection and Term</u>	<u>Term Expires</u>
Select Board	Sean Regnier, Chairman	Elected/3 years	2023
	Robert Jones	Elected/3 years	2024
	Gordon Bailey	Elected/3 years	2025
Town Administrator	Christopher Brittain	Appointed/Indefinite	
Treasurer/Collector	Donna M. Toomey	Appointed/Indefinite	--
Clerk	Rachael Armstrong	Appointed/Indefinite	--
Town Accountant	Jennifer Catolane	Appointed/Indefinite	--
Town Counsel	Jeremia Pollard	Appointed/1 year	2023

SERVICES

The Town provides general governmental services for the territory within its boundaries including sewer and water services for 86% and 89% of the Town, respectively, a library, education for pre-school through high school, building inspection, a planning board and fire and police protection.

Legislation enacted in 1997 abolished the county governments of Franklin and Middlesex Counties as of July 1, 1997, with their assets, functions, debts and other obligations being assumed by the Commonwealth. The abolishment of the Middlesex County government was partly in response to a default by the County in the payment of general obligation notes of the county. The legislation also abolished the county governments of Hampden and Worcester Counties as of July 1, 1998. Legislation enacted in 1998 abolished the county governments of Hampshire, Essex and Berkshire counties as of January 1, 1999, July 1, 1999 and July 1, 2000, respectively. The legislation requires the state secretary for administration and finance to establish a plan to recover the Commonwealth's expenditures for the liabilities and other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the county (or two years prior in the case of Essex County) until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county government in other remaining counties.

COVID 19

COVID-19 is a respiratory disease caused by a novel coronavirus that has not previously been seen in humans. On March 10, 2020, the Governor of The Commonwealth of Massachusetts declared a state of emergency to support the Commonwealth's response to the outbreak of the virus. On March 11, 2020 the World Health Organization declared COVID-19 a pandemic. On March 13, 2020, the President declared a national emergency due to the outbreak, which enabled disaster funds to be made available to states to fight the pandemic.

On May 18, 2020, the Governor of The Commonwealth of Massachusetts announced a phased plan to reopen businesses and services. As of this date, this reopening has been implemented only on a limited basis, currently in so-called "Phase 3" of said plan which is available at www.mass.gov/info-details/covid-19-updates-and-information.

In response to the COVID-19 pandemic, federal and state legislation was signed into law that provides various forms of financial assistance and other relief to state and local governments. For example, the U.S. Congress enacted and the President signed the CARES Act on March 27, 2020. The Town was eligible to receive up to \$271,271 in CARES funding in fiscal 2020 and \$233,384 in fiscal 2021. The Town has received a total of \$485,521 in CARES funding.

In addition, the United States Congress passed the American Rescue Plan Act of 2021 ("ARPA"), effective March 11, 2021. Among other provisions, ARPA provides \$350 billion to state and local governments to mitigate the fiscal disruptions

created by the pandemic. Such funds may be used to replace revenues lost or reduced as a result of the pandemic and fund COVID-related costs, among other purposes. The Town is eligible for \$1,657,283 in ARPA funds and has received \$1,693,008 to date.

The virus and the resulting actions by national, state and local governments is altering the behavior of businesses and people in a manner that will have negative impacts on global and local economies. There can be no assurances regarding the extent to which COVID-19 will impact the national and state economies and, accordingly, how it will adversely impact municipalities, including the Town. Although the Town expects to collect budgeted revenues for fiscal year 2021, the negative effect on the economy may result in reduced collections of property taxes and other revenues, including local meals and lodging tax revenue, motor vehicle excise taxes and other fees and charges collected by the Town.

AUTHORIZATION OF GENERAL OBLIGATION BONDS AND NOTES

Serial bonds and notes are authorized by a two-thirds vote of the town meeting. Provision is made for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Refunding bonds and notes are authorized by the selectmen. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary debt in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be incurred by the Treasurer with the approval of the Selectmen.

DEBT LIMITS

General Debt Limit. The General Debt Limit of the Town consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit for the Town is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of the state Municipal Finance Oversight Board, composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit if such debt is authorized by a two-thirds vote of the city or town and such debt is payable within the periods so specified in Mass. Gen. Laws. c. 44, §8. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, certain sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing, bonds for water, housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems. Revenue bonds are not subject to these debt limits. The General Debt Limit applies at the time the debt is authorized. The special debt limits generally apply at the time the debt is incurred.

Revenue Anticipation Notes. The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30.

Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years (see "Taxation to Meet Deficits" below). In any event, the period from an original borrowing to its final maturity cannot exceed one year.

TYPES OF OBLIGATIONS

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms

permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within five years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue.

The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue ("DOR"). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal payment of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount. Serial bonds may be issued as "qualified bonds" with the approval of the state Municipal Finance Oversight Board, composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than ten nor more than thirty years from their date of issue and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as "tax credit bonds" to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed ten years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. The maximum term of bonds issued to refund bond anticipation notes is measured from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state reimbursements for which the city or town may incur debt that may be payable over a term of five years or longer. They must generally mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth's Clean Water or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns which are members of the New England Power Pool may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the Department of Public Utilities. The Town does not have an electric department.

DEBT (1)

The following shows the direct debt to be outstanding as of February 1, 2023:

General Obligation Bonds:

Within General Debt Limit (2)		
Streets Sidewalks & Parking	\$ 1,060,000	
Departmental Equipment	<u>906,000</u>	
Total Within the General Debt Limit		\$ 1,966,000
Outside General Debt Limit		
Sewers	4,885,309	
Water	<u>2,859,309</u>	
Total Outside the General Debt Limit		<u>7,744,618</u>
Total Outstanding General Obligation Bonds		\$9,710,618
Temporary Loans in Anticipation of:		
Revenue	\$ 0	
Bonds	0	
Grants	<u>0</u>	
Total Temporary Loans		<u>0</u>
Total Direct Debt (3)		<u>\$9,710,618</u>

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) At the present time the normal General Debt Limit is \$51,987,905 and the Double General Debt Limit is \$103,975,810.

(3) \$ 7,744,309 is self-supporting.

AUTHORIZED UNISSUED DEBT AND PROSPECTIVE FINANCINGS

The Town has authorized unissued long-term debt in the amount of \$1,452,409, which represents the remainder of an authorization of \$22,300,000 for the design and construction of a new wastewater treatment facility (\$872,156) and water purposes. The Town does not expect to borrow against this remaining authorization for the design and construction of the new wastewater treatment facility.

FIVE YEARS OUTSTANDING DEBT (1)

	As of June 30				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Long-Term Indebtedness					
Within the General Debt Limit:					
Streets & Sidewalks	\$1,179,000	\$ 0	\$ 0	\$ 0	\$ 0
Departmental Equipment	1,006,500	0	0	0	0
Schools	\$ 0	\$ 0	115,000	390,000	650,000
Total Within the General Debt Limit	\$2,185,500	\$ 0	\$ 115,000	\$ 390,000	\$ 650,000
Outside the General Debt Limit:					
Sewers	\$ 6,046,779	\$ 7,185,250	\$ 8,301,177	\$ 9,395,006	\$10,467,176
Schools	850,000	1,675,00	2,475,000	3,250,000	4,000,000
Water	2,999,500	3,394,133	3,545,868	3,691,069	3,830,017
Total Outside the General Debt Limit	9,896,279	12,254,383	14,322,045	16,336,075	18,297,193
Total Long-Term Indebtedness	\$12,081,779	\$12,254,383	\$14,437,045	\$16,336,075	\$18,947,193
Short-Term Indebtedness					
Bond Anticipation Notes	221,291	649,374	428,083	930,533	0
Total Short-Term Indebtedness	\$ 221,291	\$ 649,374	\$ 428,083	\$ 930,533	\$ 0
Total Outstanding Indebtedness	<u>\$12,303,070</u>	<u>\$12,903,757</u>	<u>\$14,865,128</u>	<u>\$17,266,608</u>	<u>\$18,947,193</u>

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt, unfunded pension liability and other post employment benefits liability.

BOND DEBT VS. POPULATION, VALUATIONS AND INCOME

	As of June 30				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Amount (1)	\$12,081,779	\$12,254,383	\$14,437,045	\$16,726,075	\$18,947,193
Per Capita (2)	\$2,099	\$2,129	\$2,565	\$2,953	\$3,315
Percent of Assessed Valuation (3)	1.13	1.27	1.52	1.78	2.05
Percent of Equalized Valuation (4)	1.16	1.18	1.48	1.72	1.95
Per Capita as a percent of					
Personal Income (2) per capita	5.33	5.40	6.51	7.50	8.41

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) Source: U.S. Department of Commerce, Bureau of the Census - Latest applicable actuals or estimates.

(3) Source: Board of Assessors - Assessed valuation as of the prior January 1.

(4) Source: Massachusetts Department of Revenue - Equalized valuation in effect for that fiscal year (equalized valuations are established for January 1 of each even-numbered year).

REVENUE ANTICIPATION BORROWING

The Town has not issued revenue anticipation notes in any of the last five fiscal years.

ANNUAL DEBT SERVICE (1)

The following table presents the debt service payable on the Town's outstanding debt as of February 1, 2023:

Fiscal Year	Outstanding 02/16/23		Total Debt Service	Cumulative % Principal Retired
	<u>Principal</u>	<u>Interest</u>		
2023	0	82,225	83,225	0.0
2024	1,569,934	242,682	1,812,616	16.2
2025	1,603,872	199,244	1,803,116	32.7
2026	1,633,294	156,947	1,790,241	49.5
2027	1,673,209	115,732	1,788,941	66.7
2028	415,000	88,625	503,625	71.0
2029	430,000	71,650	501,650	75.4
2030	440,000	49,900	489,900	80.0
2031	445,000	34,450	479,450	84.6
2032	445,000	25,550	470,550	89.1
2033	240,000	18,700	258,700	91.6
2034	240,000	13,900	253,900	94.1
2035	240,000	9,100	249,100	96.6
2036	175,000	4,950	179,950	98.3
2037	160,000	1,600	161,600	100.0
Total	<u>\$9,710,309</u>	<u>\$1,116,255</u>	<u>\$10,826,564</u>	

(1) Excludes revenue anticipation notes, grant anticipation notes, bond anticipation notes, lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) Principal totaling \$7,744,309 and interest totaling \$728,635 is self-supporting.

CONTRACTS

Obligations to make payments on account of municipal contracts are generally limited to currently available appropriations. A Massachusetts city or town has general statutory authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally will be expressly subject to availability and appropriation of funds. Specific authority exists in relatively few cases for long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There is implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Cities and towns are authorized to lease (as lessee) off-street parking facilities, school buildings, hospital equipment, data process equipment, energy conservation equipment and educational equipment for periods ranging up to 10 years. They may also lease equipment, with option to purchase, for a period up to 10 years. Contracts may also be made for the installment purchase of energy conservation equipment over a period up to 10 years. Cities and towns may also lease various properties as lessor. The Town has not entered into any lease or installment purchase contracts of a substantial nature.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town has two contracts of significance. The Town has a five year contract with DuFour Busing for school busing services, terminating on June 30, 2027. The Town expended \$225,000 for such services in fiscal 2022 and has appropriated \$227,685 for fiscal 2023.

The Town has a two year contract with Waste Water Services, Inc. for sludge hauling and disposal relating to the operation of its wastewater treatment plant, terminating on March 31, 2023. The Town expended \$199,605 for such services in fiscal 2022 and has appropriated \$225,395 for fiscal 2023.

OVERLAPPING DEBT (1)

The following are the principal entities whose indebtedness is chargeable to Massachusetts cities and towns or payable from taxation of property within the cities and towns:

Regional Transportation Authorities. These are transportation authorities which have been established outside the Boston area. It has been state practice in recent years to provide a portion of their net cost of service, including debt service on their bonds. In addition to the other sources of funds provided by Massachusetts General Laws Chapter 161B from which the regional transit authorities may obtain monies for the payment of the principal of and interest on their obligations, such payment will be further secured by the Commonwealth, which is required to pay to the regional transit authorities amounts duly certified by the administrator of the authority as necessary to pay any principal or interest due or about to come due for such purpose. The remainder of the net cost of service is assessed upon the member cities and towns in proportion to the amount of the net cost incurred on routes within each city or town. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year. (See “*Tax Limitations*” under “PROPERTY TAX” below.)

The following table sets forth the portion of overlapping debt assessed to the Town:

	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated Share of Lee</u>	<u>Assessment for Operations and Debt Service Fiscal Year 2023</u>
Berkshire Regional Transit Authority (2)	\$0	\$0	0%	\$4,807.34

(1) Excludes temporary loans in anticipation of revenue. Omits debt of the Commonwealth.

(2) Source: Administrator, Berkshire Regional Transit Authority. Debt is as of February 15, 2023.

RETIREMENT PLAN

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission (“PERAC”) provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. “Excess earnings,” or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. A system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the

appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the “PRIT Fund”), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Town has no such non-contributory system.

The Town participates in the Berkshire Regional Retirement System (the “System”). The annual contributions of the Town to the System for the most recent fiscal years and the amount assessed for fiscal 2023 are as follows:

<u>Year</u>	<u>Total</u>
2023 (assessed)	\$1,281,555
2022	1,166,767
2021	1,093,511
2020	1,049,061
2019	977,581
2018	960,948

As of January 1, 2021, the estimated total actuarial liability of the System was \$323,222,853. The assets of the System were \$282,589,130, leaving an estimated unfunded actuarial liability of \$40,633,723, based on a discount rate of 7.00 percent. The System is on a funding schedule that will fully amortized the unfunded liability by June 30, 2028. (Source: PERAC, January 1, 2021, also available at the following link: <https://www.mass.gov/doc/berkshire-county-retirement-system-valuation-report-2021-0/download>)

There is no separate valuation of the Town’s share of the liability currently available. The Town of Lee’s payment to the system in fiscal year 2021 is 10.35 percent of the total payments to be made to the BRRS for the current fiscal year. Based on this percentage, the Town’s estimated unfunded actuarial liability is \$4,603,241.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approved by the local legislative body, which acceptance may not be revoked.

The foregoing data do not include the retirement system costs or liabilities attributable to employees of the county or the retirement system costs or liabilities of any other entity of which the Town is a constituent part.

OTHER POST-EMPLOYMENT BENEFITS.

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities and towns is generally provided on a pay-as-you-go basis. The Governmental Accounting Standards Board (“GASB”) promulgated accounting standards that require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These accounting standards do not require pre-funding the payment of these costs as the liability for such costs accrues, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if the cost of such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities

and towns may establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits.

Using the services of an actuary, the Town has determined the Total OPEB Liability for other post-employment benefits for active and retired employees following the GASB Statements 74 and 75 (including health care and life insurance) as of July 1, 2022, the most recent valuation available (and a measurement date of June 30, 2022), the total OPEB liability for such post-employment benefits is \$24,789,371 and the fiduciary net position (plan assets) is \$613,971 leaving a net OPEB liability of \$24,174,400 using a discount rate of 4.97%.

The Town established a trust fund for OPEB funding in 2010; as of June 30, 2022, the Town has \$613,971 in the fund. The Town anticipates a \$50,000 contribution in fiscal 2023 to the trust fund. The Town intends to continue to make annual contributions into the trust fund.

PROPERTY TAXATION AND VALUATION

Tax Rate and Valuation - General. Property is classified for the purpose of taxation according to its use. The legislature has in substance created four classes of taxable property: (1) residential real property, (2) open space land, (3) commercial and (4) industrial. Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 35 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every five years, or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property.

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value". See "DEBT LIMITS" above.

VALUATIONS (1)

The following shows the assessed and equalized valuations for the current and most recent fiscal years:

	For Fiscal Year				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Real Property (2)	\$1,131,325,751	\$ 969,897,202	\$889,329,601	\$872,913,729	\$872,625,532
Personal Property (2)	<u>104,894,220</u>	<u>100,744,390</u>	<u>73,272,270</u>	<u>74,529,710</u>	<u>65,672,560</u>
Total	<u>\$1,236,219,971</u>	<u>\$1,070,641,592</u>	<u>\$962,601,871</u>	<u>\$947,443,439</u>	<u>\$938,298,092</u>
Equalized Value (3)	\$1,039,758,100	\$1,039,758,100	\$1,039,758,100	\$973,498,900	\$973,498,900
Percent of Total Assessed to Equalized Valuation	118.9	103.0	92.6	97.3	96.4

(1) Source: Massachusetts Department of Revenue.

(2) As of January 1 of the prior fiscal year.

(3) The equalized valuations in effect for each year.

ASSESSED VALUATION OF PROPERTY BY CLASS (1)

<u>Type of Property</u>	<u>For Fiscal Year</u>					
	<u>2023</u>	<u>% of Total</u>	<u>2022</u>	<u>% of Total</u>	<u>2021</u>	<u>% of Total</u>
Residential	\$ 862,734,759	69.8	\$ 730,223,755	68.2	\$652,044,111	67.7
Commercial	208,170,554	16.8	185,960,778	17.4	184,197,221	19.1
Industrial	60,420,438	4.9	53,712,669	5.0	53,088,269	5.5
Personal	104,894,220	8.5	100,744,390	9.4	73,272,270	7.6
Total	<u>\$1,236,219,971</u>	<u>100.0</u>	<u>\$1,070,641,592</u>	<u>100.0</u>	<u>\$962,601,871</u>	<u>100.0</u>

(1) Source: Massachusetts Department of Revenue.

TAX RATES

The following shows the actual tax rate per \$1,000 of assessed valuation and the full value rate based on the equalized valuations for the current and most recent fiscal years:

<u>Fiscal Year</u>	<u>Actual Tax Rate</u>	<u>Full Value Rate</u>
2023	\$11.83	\$14.07
2022	13.65	14.06
2021	14.68	13.59
2020	14.68	14.29
2019	14.78	14.25

(1) Source: Massachusetts Department of Revenue.

(2) Based on the equalized valuation in effect for each year.

LARGEST TAXPAYERS (1)

The following is a list of the ten largest taxpayers for fiscal year 2023:

<u>Name</u>	<u>Nature of Business</u>	<u>Assessed Valuation</u>	<u>Amount of Tax</u>
Eversource/Instar Electric Company	Utility	\$ 60,889,640	\$720,324
Prime Outlets at Lee .	Retail-Outlet Village	53,030,800	636,724
Silverleaf Resort & Timeshare	Resort	27,772,690	328,551
Highlawn Realty LLC	Farm	12,555,300	148,529
Onyx Specialty Papers	Paper Manufacturer	11,238,500	132,951
HCRI Mass Properties (Laurel Lake)	Geriatric Facility	10,211,500	122,596
Big Y Foods, Inc.	Grocery Store	7,043,400	83,323
Oldcastle Stone Products	Quarry	6,708,900	79,366
The Ponds Association	Timeshare Resort	5,702,700	67,463
Hopsicker Property, Murcor LLC	Manufacturing	3,850,000	46,211
Total		<u>\$199,003,430</u>	<u>\$2,366,038</u>

(1) All of the largest taxpayers are current in their payments of real and personal property taxes.

TAX LEVIES

Levy - General. The principal tax of Massachusetts cities and towns is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from funds on hand.

The total amount levied is subject to certain limits prescribed by law; for a description of those limits see “Tax Limitations” herein. As to the inclusion of debt service and final judgments, see “Security and Remedies” herein.

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years.

Although an allowance is made in the tax levy for abatements (see "Abatements and Overlay" herein) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see "Taxation to Meet Deficits" herein).

Taxation to Meet Deficits. As noted elsewhere (see "Abatements and Overlay" herein) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations. Chapter 59, Section 21C of the General Laws, also known as Proposition 2½ imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2.5 percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7.5 percent by majority vote of the voters, or to less than 7.5 percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2.5 percent subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation in its assessed valuation over the prior year's valuation.

This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund. The applicable tax limits may also be reduced in any year by a majority of the voters.

The State Commissioner of Revenue may adjust any tax limit "to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year.

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculations of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures. In addition, the city council of a city, with the approval of the Mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2.5 percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option". Regional water districts, regional sewerage districts and regional veterans' districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

Pledged Taxes. Taxes on certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes. (See "Tax Increment Financing for Development Districts" herein.)

Initiative Petitions. Various other proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on state and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

CALCULATION OF TAX LEVIES AND LEVY LIMITS

The following table shows the calculation of the tax levies for the current and most recent fiscal years:

	For Fiscal Year (000)				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Gross Amount to be Raised:					
Appropriations	\$25,437,101	\$24,943,167	\$23,581,089	\$24,363,535	\$24,410,913
Other Local Expenditures	1,251,295	1,079,037	855,109	832,919	685,013
State & County Charges	708,107	698,790	740,743	733,648	697,855
Overlay Reserve	<u>352,242</u>	<u>452,658</u>	<u>305,835</u>	<u>198,666</u>	<u>268,490</u>
Total Gross Amount to be Raised	\$27,748,745	\$27,173,652	\$25,482,776	\$26,128,768	\$26,062,271
Less Estimated Receipts & Other Revenue:					
Estimated Receipts from State	4,611,831	4,451,835	4,295,475	4,299,896	4,114,710
Estimated Receipts - Local	7,261,153	6,868,511	6,688,963	6,698,064	6,244,819
Available Funds Appropriated:					
Free Cash	1,251,279	1,239,049	367,343	1,222,338	853,755
Revenue Sharing	0	0	0	0	0
Other Available Funds	0	0	0	0	980,941
Free Cash & Other Revenue Used					
to Reduce the Tax Rate	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Estimated Receipts & Revenue	<u>13,124,263</u>	<u>12,559,395</u>	<u>11,351,781</u>	<u>12,220,298</u>	<u>12,194,225</u>
Net Amount to be Raised (Tax Levy)	<u>\$14,624,482</u>	<u>\$14,614,258</u>	<u>\$14,130,995</u>	<u>\$13,908,470</u>	<u>\$13,868,046</u>
Property Valuation	<u>\$1,236,219,971</u>	<u>\$1,070,641,592</u>	<u>\$962,601,871</u>	<u>\$947,443,439</u>	<u>\$938,298,092</u>

(1) Source: Massachusetts Department of Revenue.

The following shows the calculation of levy limits for the current and most recent fiscal years:

Unused Levy Capacity (1)

	For Fiscal Year (000)				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Primary Levy Limit (2)	30,905,499	26,766,040	24,065,047	23,686,086	23,457,452
Prior Fiscal Year Levy Limit	18,064,616	17,242,283	16,672,089	15,986,619	15,362,384
2.5% Levy Growth	451,790	431,057	416,802	399,665	384,060
New Growth (3)	267,006	391,276	153,392	285,805	240,175
Overrides	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Growth Levy Limit	18,790,379	18,064,616	17,242,283	16,672,089	15,986,619
Debt Exclusions	312,245	311,745	430,134	598,909	587,636
Capital Expenditure Exclusions	0	0	0	0	0
Other Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Tax Levy Limit	19,102,624	18,376,361	17,672,417	17,270,998	16,574,255
Tax Levy	<u>14,624,482</u>	<u>14,614,258</u>	<u>14,130,995</u>	<u>13,908,470</u>	<u>13,868,046</u>
Unused Levy Capacity (4)	<u>\$4,478,142</u>	<u>\$3,762,103</u>	<u>\$3,541,422</u>	<u>\$3,362,528</u>	<u>\$2,706,209</u>
Unused Primary Levy Capacity (5)	<u>12,115,120</u>	<u>8,701,424</u>	<u>6,822,764</u>	<u>7,013,997</u>	<u>7,470,833</u>

(1) Source: Massachusetts Department of Revenue.

(2) 2.5% of assessed valuation.

(3) Allowed increase for new valuations (or required reduction) - certified by the Department of Revenue.

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit less Growth Levy Limit.

TAX COLLECTIONS AND ABATEMENTS

Payment Dates. The taxes for each fiscal year generally are due in two installments on November 1 (subject to deferral if tax bills are sent out late) and May 1, unless a city or town accepts a statute providing for quarterly tax payments. Under the statute, preliminary tax payments are to be due on August 1 and November 1 with payment of the actual tax bill (after credit is given for the preliminary payments) in installments on February 1 and May 1 if actual tax bills are mailed by December 31. Interest accrues on delinquent taxes at the rate of 14 per cent per annum. The Town has not accepted this statute; it continues to issue semi-annual tax bills.

Lien. Real property (land and buildings) is subject to a lien for the taxes assessed upon it subject to any paramount federal lien and subject to bankruptcy and insolvency laws. (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax rebates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment.

Personal Liability. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws.) In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described in "Taking and Sale" below.

The following shows the total tax levy, the reserve for abatements, the net levy and the amounts collected during each fiscal year and as of a more recent date for the current and most recent fiscal years.

	For Fiscal Year				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total Tax Levy	\$14,624,482	\$14,614,258	\$14,130,995	\$13,908,470	\$13,868,046
Overlay Reserve for Abatements	<u>352,242</u>	<u>452,658</u>	<u>305,835</u>	<u>198,666</u>	<u>268,490</u>
Net Tax Levy (1)	\$14,272,240	\$14,161,599	\$13,825,160	\$13,709,804	\$13,599,556
Amount Collected During					
Fiscal Year Payable (2)	N/A	\$12,787,735	\$12,829,811	\$13,387,368	\$13,322,630
Percent of Net Tax Levy	N/A	90%	92%	98%	98%

(1) Net after deductions of overlay reserve for abatements.

(2) Actual collections of levy less refunds and amounts refundable but including proceeds of tax titles and tax possessions attributed to such levy but not including abatements or other credits.

Abatements and Overlay. A city or town is authorized to increase each tax levy by an amount approved by the State Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy.

Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. But uncollected real property taxes are ordinarily not written off until they become municipal "tax titles" by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.

The following shows the abatements granted during the fiscal year as well as through a more recent date for the current and most recent fiscal years:

	For Fiscal Year				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Tax Levy (1)	\$14,624,482	\$14,614,258	\$14,130,995	\$13,908,470	\$13,868,046
Overlay Reserve for Abatements (1)	\$352,242	\$452,658	\$305,835	\$198,666	\$268,490
Percent of Tax Levy	2.4	3.1	2.2	1.4	1.9
Abatements Granted:					
During Fiscal Year of Levy	N/A	\$63,095	\$84,689	\$101,208	\$104,275

(1) Source: Massachusetts Department of Revenue.

Sale of Tax Receivables. Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

Taking and Sale. Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for nonpayment of taxes. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments), it can be foreclosed by petition to the Land Court. Upon foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of in the same manner as other land held for municipal purposes.

TOWN FINANCES

Budget and Appropriation Process. The annual appropriations of a town are ordinarily made at the annual meeting which takes place in February, March, April or May. Appropriations may also be voted at special meetings. Every town must have an appropriation, advisory or finance committee. The committee (or the board of selectmen if authorized by by-law) is required to submit a budget of proposed expenditures at the annual town meeting.

Water and sewer department expenditures are generally included in the budgets adopted by town meetings but electric and gas department funds may be appropriated by the municipal light boards. Under certain legislation any city or town which accepts the legislation may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department. It is assumed that this general provision does not alter the pre-existing power of an electric or gas department to appropriate its own receipts.

The school budget is limited to the total amount appropriated by the town meeting, but the school committee retains full power to allocate the funds appropriated. State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. In fiscal years 1994 through 2013, the Town's net spending exceeded the minimum required local contribution and is expected to do so in fiscal 2014.

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See Property Taxation and Valuation herein.)

BUDGET COMPARISON

The following table sets forth the budgets for fiscal years 2019-2023.

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
General Government	\$ 5,740,861	\$ 5,475,309	\$ 5,475,309	\$ 5,383,110	\$ 5,209,877
Public Safety	2,506,412	2,172,942	2,172,942	2,172,942	2,275,981
Education	10,164,902	9,497,015	9,497,015	9,379,902	8,981,310
Public Works	1,321,199	1,198,190	1,198,190	1,179,171	1,199,221
Human Services	660,622	629,335	629,335	610,724	587,250
Culture & Recreation	367,753	356,467	356,467	339,992	335,560
Debt Service	<u>865,850</u>	<u>984,350</u>	<u>984,350</u>	<u>1,153,975</u>	<u>1,143,500</u>
Total	<u>\$21,627,599</u>	<u>\$20,389,440</u>	<u>\$20,389,440</u>	<u>\$20,219,816</u>	<u>\$19,732,699</u>

STATE AID

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects) the Commonwealth of Massachusetts provides financial assistance to cities and towns for current purposes. Payment of local aid to cities and towns is derived primarily from a percentage of the State's personal income, sales and use and corporate excise tax receipts, together with the net receipts from the State Lottery. Payments of state aid to cities and towns are based upon numerous separate formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The State annually estimates State aid for the next fiscal year but the actual State aid payments may vary from the estimates.

In the fall of 1986, both the State Legislature (by statute repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limits the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, these measures could restrict the amount of state revenues available for state aid to local communities.

State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education and related programs, and may affect the level of state aid to be received for education. The requirements are determined on the basis of formulas affected by various measures of

wealth and income, enrollments, prior levels of local spending and state aid, and other factors. The Town's net school spending has always exceeded the minimum required local contribution

The following table sets forth the amount of State aid received by the Town in recent years and budgeted to be received in the current fiscal year:

<u>Fiscal Year</u>	<u>Total From State</u>
2023 (budgeted)	\$4,061,543
2022	3,901,547
2021	3,816,798
2020	3,749,608
2019	3,564,422

STATE SCHOOL BUILDING ASSISTANCE PROGRAM

Under its school building assistance program, The Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

The range of reimbursement rates for new project grant applications submitted to the Authority is between 31% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

The Town does not currently have any school projects receiving grants from the Authority.

MOTOR VEHICLE EXCISE

An excise is imposed on the registration of motor vehicles (subject to exemptions) at the rate of \$25 per \$1,000 of valuation. The excise is collected by and for the benefit of the municipality in which the motor vehicle is customarily kept. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills are payable within 30 days of their issue and when not paid bear interest at 12 percent per annum. Provision is also made, after notice to the owner, for suspension of the owner's operating license or registration by the Registrar of Motor Vehicles.

The following table shows the actual motor vehicle receipts in each of the most recent fiscal years and the amount budgeted to be received during the current fiscal year.

<u>Fiscal Year</u>	<u>Receipts (1)</u>
2023 (budgeted)	\$800,000
2022 (unaudited)	1,030,023
2021	870,391
2020	883,503
2019	830,460

(1) Source: Massachusetts Department of Revenue - Net after refunds. Includes receipts for prior years.

COMMUNITY PRESERVATION ACT

The Massachusetts Community Preservation Act (the “CPA” or the “Community Preservation Act”) permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy, dedicate revenue (other than state or federal funds), and to receive state matching funds for (i) the acquisition, creation, preservation, rehabilitation and restoration of land for recreational use, open space, and affordable housing and (ii) the acquisition, preservation, rehabilitation and restoration of historic resources. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% (but not less than 1% under certain circumstances) and may make an additional commitment of funds by dedicating revenue other than state or federal funds, provided that the total funds collected do not exceed 3% of the real property tax levy, less any exemptions adopted (such as an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property or \$100,000 of the value of each taxable parcel of class three, commercial property, and class four, industrial property as defined in Chapter 59, Section 2A of the General Laws, and an exemption for commercial and industrial properties in cities and towns with classified tax rates). In the event that the municipality shall no longer dedicate all or part of the additional funds to community preservation, the surcharge on the real property tax levy of not less than 1% shall remain in effect, provided that any such change must be approved pursuant to the same process as acceptance of the CPA. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see “Tax Limitations” under “PROPERTY TAXATION” herein). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, including reducing the surcharge to 1% and committing additional municipal funds as outlined above, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge and dedication of revenue. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula and the total state distribution made to any city or town may not exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on taxes, the dedication of revenue and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge and dedicated revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

The Town has accepted this legislation in November 2022. The current balance in the fund is \$135,425.

OTHER TAXES

Four additional sources of revenue for local governments are the room occupancy excise tax, local meals excise tax, aviation fuel tax and the marijuana tax. All of these taxes take effect only where accepted by individual municipalities. Under the room occupancy excise tax, local governments may tax the provision of hotel, motel, lodging house and bed and breakfast rooms at a rate not to exceed six and one-half percent of the cost of renting such rooms. The tax is paid by the operator of each establishment to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located.

The local meals excise tax, effective for sales of restaurant meals on or after October 1, 2009, is a three-fourths percent tax on the gross receipts of a vendor from the sale of restaurant meals. The tax is paid by the vendor to the State Commissioner of Revenue, who in turn pays the tax to the municipality in which the meal was sold.

The aviation fuel tax is a five percent tax (with a minimum of five cents per gallon) on the sale or use of jet fuel to or by jet aircraft. The tax is paid by the seller/user of the fuel to the Commissioner of Revenue, who in turn rebates the tax to the municipality in which the fuel being taxed was transferred into an aircraft. At present, only the City of Boston has approved the imposition of this tax.

Under the marijuana tax, local governments may tax the sale and transfer of marijuana or marijuana products by a marijuana retailer operating within its territorial limits to anyone other than a marijuana establishment, at a rate not in excess of three percent of the total sale price received by the marijuana retailer as a consideration for the sale of marijuana or marijuana projects.

The Town has voted to impose the room occupancy, meals and marijuana taxes. The following table shows the actual receipts of the room occupancy and meals tax for the most recent fiscal years and budgeted for fiscal 2023:

	<u>2023</u>				
	<u>(budgeted)</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Meals Tax	\$100,000	\$ 197,006	\$ 140,937	\$ 184,894	\$ 196,334
Room Occupancy Tax	480,000	667,440	413,077	461,564	345,132
Marijuana Tax	548,000	790,232	844,755	404,500	0

TAX INCREMENT FINANCING FOR DEVELOPMENT DISTRICTS

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth projects in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2 ½ (see "Tax Limitations" under "TAX LEVIES" above.)

The Town has not established any development districts and currently has no plans to do so.

UNASSIGNED GENERAL FUND BALANCE AND FREE CASH

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years. The Town Accountant may certify as available for appropriation an adjusted free cash figure by adding back those uncollected and overdue property taxes which are subsequently collected between July 1 and the following March 31 of any year.

The following table sets forth the unassigned general fund balance and certified free cash for the most recent fiscal years:

<u>June 30</u>	<u>Unassigned General Fund Balance</u>	<u>Free Cash</u>
2022	\$4,060,880	N/A
2021	3,545,155	3,366,236
2020	2,856,839	2,595,723
2019	1,991,916	857,045
2018	2,583,708	1,922,207

STABILIZATION FUND

The Town has maintained a Stabilization Fund for several years. Under Massachusetts statutes, funds may be appropriated by a two-thirds vote of the town meeting from the Fund for any municipal purpose. The Town has typically used the Stabilization Fund to pay for one-time expenditures or for pay-as-you-go capital acquisitions. The following is the balance in the account at the end of the most recent fiscal years:

<u>Fiscal Year</u>	<u>Balance</u>
2022	\$700,858
2021	713,986
2020	711,016
2019	701,897
2018	838,700

The Town has appropriated \$0 from the Stabilization Fund for use in fiscal year 2023. The Town also has a separate stabilization fund for fire equipment purchases which had a balance of \$296,988 as of June 30, 2022.

The Town has also approved a Municipal Infrastructure Investment Fund in accordance with Massachusetts General Laws Chapter 40, section 39M. Effective for fiscal 2018, a 1% surcharge was placed on real estate bills. As of June 30, 2022, the Town collected \$493,348.

INVESTMENTS

Investments of funds of cities and towns, except for trust funds, are generally restricted by Massachusetts General Laws Chapter 44, section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares of SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with section 54 of Chapter 44, which permits a broader range of investments than section 55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by section 54 and 55 do not apply to city and town retirement systems.

COLLECTIVE BARGAINING

City and town employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment. The Town has approximately 234 full time and permanent part time employees of which approximately 70percent belong to unions or other collective bargaining groups as follows:

<u>Union</u>	<u>Department</u>	<u>Number of People</u>	<u>Contract Expiration</u>
Teamsters	DPW	8	06/30/2025
Teamsters	Police	11	06/30/2025
AFL-CIO	Fire	9	06/30/2024
Lee Education Association/MTA	School	98	08/31/2025
Cafeteria Workers	School	6	06/30/2025
Paraprofessionals/MTA	School	41	06/30/2025
Lee Secretaries, Clerks, Typist Association	School	10	06/30/2025
Custodians	School	9	06/30/2025
		<u>183</u>	

PHYSICAL AND ECONOMIC CHARACTERISTICS

The Town of Lee is located in western Massachusetts in Berkshire County approximately 122 miles from Boston and 9 miles from Pittsfield. It is bordered on the south by the Towns of Tyringham and Great Barrington, on the northwest by the Town of Lenox, on the east by the Town of Becket, on the northeast by the Town of Washington and on the west by the Town of Stockbridge. The Town occupies a land area of approximately 26.4 square miles.

Lee has maintained its small town New England character through decades of growth and change, attracting many tourists who visit the area each year. The Town is located within minutes of such cultural attractions as Tanglewood, Berkshire Performing Arts, Jacobs Pillow, and the Edith Wharton Estate. The new National Music Center is located in Lenox, just four miles north of Lee. Lee serves as a host town to many motels, bed-and-breakfasts and inns, as well as many fine restaurants. The Berkshires offer a variety of lakes, streams and rivers, wooded trails for hiking and many ski areas. Lee is also home to “the best courtroom in the county”, where its most famous case was that of young Arlo Guthrie, whose day in court was remembered as lyrics in Guthrie’s famous war protest song, “Alice’s Restaurant.”

Lee’s prime location at Massachusetts Turnpike Exit 2 has helped pave the way for its designation by the Commonwealth of Massachusetts as an “economic opportunity area.” As such, the Town is eligible for funding under HUD for technical and other economic studies.

Previously known as a mill town, Lee has over the years evolved into much more. While papermaking still employs a large share of the labor force, Lee is also home to the famous Country Curtains Warehouse. Small businesses and services also contribute substantially to employment in the Town.

PRINCIPAL EMPLOYERS

The following are the largest employers, other than the Town itself, located in the Town:

<u>Company</u>	<u>Nature of Business</u>	<u>Approximate number of Employees</u>
Prime Outlets of Lee	Retail	750
Village at Laurel Lake	Nursing Home Facility	75
Onyx	Paper Manufacturing	138
Big Y	Grocery Store	111
Berkshire Sterile Manufacturing	Sterile Drug Manufacturer	214
Oak'n Spruce Resort	Resort	47
Boyd Technologies	Manufacturer	74
Lee Bank	Financial	78
Excelsior Printing	Shipping	46

Source: The Town, January 2023.

BUILDING PERMITS

The following table presents the number of building permits issued, and the estimated value, of construction activity in the Town for the past five calendar years.

<u>Calendar Year</u>	<u>Number</u>	<u>Estimated Value</u>
2022	559	\$17,042,474
2021	373	10,527,155
2020	409	9,966,748
2019	352	12,562,876
2018	402	11,467,954

EMPLOYMENT BY INDUSTRY (1)

<u>Employment by Industry</u>	Calendar Year Average				
	<u>2020</u>	<u>2019</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Construction & Natural Resources	231	216	223	200	212
Manufacturing	531	479	468	438	413
Trade, Transportation & Utilities	1,008	890	1,070	1,099	1,269
Financial Activities	112	119	126	124	127
Professional & Business Services	207	195	234	245	209
Education & Health Services	296	314	421	368	318
Leisure & Hospitality	356	336	512	573	615
Information & Other Services	174	164	139	124	124
Public Administration	<u>89</u>	<u>97</u>	<u>97</u>	<u>103</u>	<u>100</u>
Total Employment	<u>3,215</u>	<u>2,994</u>	<u>3,484</u>	<u>3,479</u>	<u>3,581</u>
Number of Establishments	311	304	317	319	330
Total Annual Wage (000)	\$159,645	\$148,848	\$144,752	\$137,795	\$140,490
Average Weekly Wage	\$955	\$956	\$799	\$762	\$754

(1) Source: Massachusetts Executive Office of Labor & Workforce Development.

PUBLIC SCHOOL ENROLLMENTS (1)

The following table presents the school enrollment of students in Town public schools as of October 1, 2017, through October 1, 2022. The Town believes the capacity of the schools will be sufficient for the foreseeable future.

	Actual					Projected
	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-2022</u>	<u>2022-23</u>
Pre School-K	77	69	71	53	56	69
Grades 1-4	177	200	201	199	184	170
Grades 5-6	86	78	87	98	94	102
Grades 7-8	111	115	111	93	94	114
Grades 9-12	<u>238</u>	<u>244</u>	<u>240</u>	<u>236</u>	<u>228</u>	<u>206</u>
Total	<u>689</u>	<u>706</u>	<u>711</u>	<u>679</u>	<u>656</u>	<u>661</u>

(1) As of October 1, each year.

OTHER DATA

<u>Calendar Year (2)</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment Rate</u>			
			<u>Town</u>	<u>County</u>	<u>State</u>	<u>US</u>
2022 (December)	3,025	2,898	4.2	4.3	3.2	3.3
2021	3,176	2,988	5.9	6.7	5.7	5.3
2020	3,103	2,825	9.0	9.1	8.9	8.1
2019	3,344	3,238	3.2	3.5	2.9	3.7
2018	3,347	3,223	3.7	4.1	3.4	3.9

(1) Source: Massachusetts Executive Office of Labor & Workforce Development.

(2) Full year averages except for 2020 which is for the month indicated.

Population (1)

<u>Year</u>	<u>Lee</u>		<u>Berkshire County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
		<u>Change</u>		<u>Change</u>		<u>Change</u>
2021 estimate	5,755	(3.2)	128,657	(2.0)	6,984,723	6.7
2010	5,943	(0.7)	131,219	(2.8)	6,547,629	3.1
2000	5,985	2.3	134,953	(3.2)	6,349,097	5.5
1990	5,849	(6.4)	139,352	(4.0)	6,016,425	4.9
1980	6,247	0.0	145,110	0.0	5,737,037	0.0

(1) Source: U.S. Department of Commerce for actuals and estimates.

Population Density (1)

<u>Year</u>	<u>Lee (2)</u>		<u>Berkshire County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Density</u>	<u>Number</u>	<u>Density</u>	<u>Number</u>	<u>Density</u>
2021 estimate	5,755	218.0	128,657	138.1	6,984,723	891.1
2010	5,943	225.1	131,219	140.9	6,547,629	835.4
2000	5,985	226.7	134,953	144.9	6,349,097	810.0
1990	5,849	221.6	139,352	149.6	6,016,425	767.6
1980	6,247	236.6	145,110	155.8	5,737,037	732.0

(1) Source: U.S. Department of Commerce for actuals and estimates.

(2) Based on 26.4 square miles.

Population Composition By Age (1)

<u>Age</u>	<u>Lee</u>		<u>Berkshire County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5 Years	129	2.2	5,294	4.1	357,943	5.1
5 Years to 19 Years	977	16.9	20,378	15.8	1,244,386	17.8
20 Years to 64 Years	3,063	53.0	73,300	56.8	4,233,492	60.5
65 Years and Over	1,615	27.9	30,117	23.3	1,156,031	16.5
Total	5,784	100.0	129,089	100.0	6,991,852	100.0
Median Age	47.8		47.1		39.6	
Median Age (2000)	40.4		40.5		36.5	

(1) Source: U.S. Department of Commerce. 2021 5-year estimates.

Per Capita Income Levels (1)

	Lee		Berkshire County		Massachusetts	
Year	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>
2021 5-year estimates	\$39,400	71.1	\$39,952	19.5	\$48,617	46.4
2009	23,024	16.3	33,435	53.3	33,203	27.9
1999	19,799	29.5	21,807	46.8	25,952	50.7
1989	15,289	122.5	14,857	117.1	17,224	131.0
% Below Poverty Level (2021 5-year estimates)	5.7		11.4		10.8	

(1) Source: U.S. Department of Commerce.

Family Income Distribution (1)

	Lee		Berkshire County		Massachusetts	
<u>Income for Families</u>	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>
Less than \$25,000	44	3.0	2,733	8.5	138,385	8.1
25,000 - 49,999	230	15.5	5,034	15.6	204,871	12.0
50,000 - 74,999	275	18.5	5,906	18.3	210,040	12.3
75,000 - 99,999	154	10.3	4,948	15.4	202,619	11.8
100,000 - 149,999	513	34.5	6,603	20.5	349,104	20.4
150,000 - 199,999	144	9.7	3,166	9.8	235,992	13.8
200,000 or more	128	8.6	3,810	11.8	370,681	21.7
Total	1,488	100.0	32,200	100.0	1,711,692	100.0
Median Income	104,091		\$84,485		\$112,543	

(1) Source: U.S. Department of Commerce. 2021 5-year estimates.

Household Income Distribution (1)

	Lee		Berkshire County		Massachusetts	
<u>Income for Households</u>	<u>Households</u>	<u>Percent</u>	<u>Households</u>	<u>Percent</u>	<u>Households</u>	<u>Percent</u>
Less than \$25,000	314	13.6	10,725	19.3	411,803	15.2
25,000 - 49,999	352	15.3	11,205	20.2	394,541	14.5
50,000 - 74,999	487	21.1	9,744	17.5	365,914	13.5
75,000 - 99,999	190	8.2	7,230	13.0	316,270	11.7
100,000 - 149,999	638	27.7	8,465	15.2	483,378	17.8
150,000 - 199,999	197	8.5	3,801	6.8	300,065	11.1
200,000 or more	128	5.6	4,355	7.8	442,477	16.3
Total	2,306	100.0	55,525	100.0	2,714,448	100.0
Median Income	\$73,750		\$63,159			

(1) Source: U.S. Department of Commerce. 2021 5-year estimates.

Value Distribution Of Specified Owner-Occupied Housing Units (1)

<u>Units</u>	Lee		Berkshire County		Massachusetts	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than \$100,000	23	1.3	3,075	7.9	47,508	2.8
100,000 - 199,999	289	16.4	12,896	33.1	133,340	7.9
200,000 - 299,999	710	40.3	9,685	24.9	275,404	16.3
300,000 - 499,999	591	33.6	8,436	21.7	592,224	35.0
500,000 - 999,999	120	6.8	3,719	9.6	523,243	30.9
1,000,000 or more	27	1.5	1,093	2.8	122,688	7.2
Total	<u>1,760</u>	<u>100.0</u>	<u>38,904</u>	<u>100.0</u>	<u>1,694,407</u>	<u>100.0</u>
Median Value	\$280,300		\$232,900		\$424,700	

(1) Source: U.S. Department of Commerce. 2021 5-year estimates.

Age Distribution Of Housing Units (1)

<u>Year Built</u>	Lee		Berkshire County		Massachusetts	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
2000 or later	124	4.5	5,320	7.6	354,321	11.9
1980 to 1999	601	21.7	10,582	15.2	552,763	18.6
1940 to 1979	1,146	41.4	27,700	39.8	1,133,932	38.1
1939 or Earlier	894	32.3	25,973	37.3	938,618	31.5
Total	<u>2,765</u>	<u>100.0</u>	<u>69,575</u>	<u>100.0</u>	<u>2,979,634</u>	<u>100.0</u>

(1) Source: U.S. Department of Commerce. 2021 5-year estimates.

Housing Unit Inventory (1)

<u>Units in Structure</u>	Lee		Berkshire County		Massachusetts	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
1, Detached	1,957	70.8	45,656	65.6	1,541,923	51.7
1, Attached	49	1.8	1,542	2.2	167,536	5.6
2 to 4	436	15.8	12,541	18.0	605,237	20.3
5 to 9	117	4.2	3,290	4.7	172,089	5.8
10 to 19	108	3.9	2,171	3.1	127,146	4.3
20 or More	75	2.7	3,093	4.4	341,547	11.5
Mobile Home, Trailer, Other	23	0.8	1,282	1.8	24,156	0.8
Total	<u>2,765</u>	<u>100.0</u>	<u>69,575</u>	<u>100.0</u>	<u>2,979,634</u>	<u>100.0</u>

(1) Source: U.S. Department of Commerce. 2021 5-year estimates.

Educational Attainment (1)

<u>Years of School Completed</u>	Lee		Berkshire County		Massachusetts	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than 9th Grade	45	1.0	2,093	2.2	207,481	4.2
9th to 12th Grade, No Diploma	96	2.2	4,532	4.8	225,734	4.6
High School Graduate	1,269	28.9	27,808	29.2	1,137,085	23.2
Some College, No Degree	951	21.6	17,769	18.7	739,611	15.1
Associate's Degree	493	11.2	8,678	9.1	376,608	7.7
Bachelor's Degree	716	16.3	18,717	19.7	1,215,939	24.8
Graduate or Professional Degree	<u>827</u>	<u>18.8</u>	<u>15,630</u>	<u>16.4</u>	<u>1,000,410</u>	<u>20.4</u>
Total	<u>4,397</u>	<u>100.0</u>	<u>95,227</u>	<u>100.0</u>	<u>4,902,868</u>	<u>100.0</u>
High School Graduate or Higher	4,256	96.8	88,602	93.0	4,469,653	91.2
Bachelor's Degree or Higher	1,543	35.1	34,347	36.1	2,216,349	45.2

(1) Source: U.S. Department of Commerce. 2021 5-year estimates

LITIGATION

In the opinion of the Town Counsel, there is no litigation, either pending or threatened, which is considered likely to result, either individually or in the aggregate, in final judgments which would materially affect the Town's financial position.

TOWN OF LEE
Massachusetts

By: /s/ Donna M. Toomey
Treasurer/Collector

Dated: February 1, 2023

APPENDIX A

The following Balance Sheets for June 30, 2018 through 2021, and the Combined Statement of Revenues, Expenditures and Changes in Fund Balance for fiscal years ending June 30, 2018 through 2021 have been taken from the audited financials of the Town. The information for fiscal 2022 has been taken from the unaudited financial statements of the Town.

There follows in Appendix B the audited financial statements for the Town for fiscal year ended June 30, 2021.

**TOWN OF LEE
MASSACHUSETTS
BALANCE SHEET (1)
GENERAL FUND
June 30,**

<u>ASSETS</u>	<u>2022</u>
Cash and Cash Equivalents	\$5,961,715
Investments	--
Receivables:	
Property Taxes and Excises	615,661
Other Assets	<u>--</u>
Total Assets	<u>\$6,577,376</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Warrants Payable	412,502
Payroll Withholding	303,284
Deferred Revenue	615,711
Accounts Payable	170,512
Other Liabilities	--
Total Liabilities	<u>1,502,010</u>

Deferred Inflow of Resources --

Fund Equity:	
Reserved for Encumbrances	974,958
Fund Balance reserved for deficits	(96,674)
Reserved for Expenditures	1,251,279
Reserved for future debt	32,150
Undesignated Fund Balance	<u>1,899,166</u>

Total Fund Equity	4,060,880
Total Income/Loss	<u>1,014,485</u>
Total Liabilities and Fund Equity	<u>\$6,577,376</u>

(1) Taken from the unaudited Balance sheet as of 6/30/2022.

**TOWN OF LEE
MASSACHUSETTS
BALANCE SHEET (1)
GENERAL FUND
June 30,**

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$6,050,137	\$6,286,212	\$5,479,362	\$5,599,086
Investments	454,891	--	--	--
Receivables:				
Property Taxes and Excises	1,199,809	1,165,928	1,112,010	577,760
Other Assets	--	--	--	--
Total Assets	<u>\$7,704,837</u>	<u>\$7,352,140</u>	<u>\$6,591,372</u>	<u>\$6,176,846</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Warrants Payable	\$214,491	\$ 477,995	\$ 168,797	\$ 223,381
Payroll Withholding	65,368	299,502	274,312	292,692
Deferred Revenue	--	--	--	--
Accounts Payable	--	--	--	--
Other Liabilities	--	--	--	--
Total Liabilities	<u>\$ 279,859</u>	<u>\$ 777,497</u>	<u>\$ 443,109</u>	<u>\$ 516,073</u>
Deferred Inflow of Resources	\$1,112,429	\$1,059,471	\$1,008,017	\$ 503,306
Fund Equity:				
Restricted	\$ 64,301	\$ 96,452	\$ 163,830	\$ 167,869
Committed	295,769	292,421	297,471	144,235
Assigned	2,407,324	1,819,330	2,687,029	1,459,954
Unassigned	<u>3,545,155</u>	<u>3,306,969</u>	<u>1,991,916</u>	<u>3,385,409</u>
Total Fund Equity	<u>6,312,549</u>	<u>5,515,172</u>	<u>5,140,246</u>	<u>5,157,467</u>
Total Liabilities and Fund Equity	<u>\$7,704,837</u>	<u>\$7,352,140</u>	<u>\$6,591,372</u>	<u>\$6,176,846</u>

(1) Extracted from the audited financial statements for the Town. Fiscal 2022 is taken from the unaudited audited financial statements of the Town.

TOWN OF LEE
Combined Statement of Revenues,
Expenditures and Changes in Fund Balance (1)
GENERAL FUND
June 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues:				
Property Taxes	\$12,954,977	\$13,621,704	\$13,498,479	\$13,477,205
Taxes and Excises	2,463,020	2,042,865	1,529,290	1,576,326
Licenses and Permits	13,493	20,431	24,489	22,074
Charges for Services	1,470,271	1,525,838	1,270,191	562,198
Penalties, Interest and Other Taxes	81,522	70,295	75,019	69,470
Intergovernmental	6,471,021	6,011,938	5,577,933	5,573,442
Interest on Investments	32,899	63,097	60,592	42,128
Other Taxes	972,805	0	0	0
Miscellaneous	150,528	29,871	31,632	37,744
Total Revenues	<u>\$24,610,536</u>	<u>\$23,386,039</u>	<u>\$22,067,625</u>	<u>\$21,360,587</u>
Expenditures:				
General Government	\$1,208,602	\$ 1,027,620	\$ 1,095,015	\$ 995,068
Public Safety	2,301,795	2,184,977	2,289,941	1,941,103
Education	12,462,499	11,868,969	10,998,509	10,752,016
Public Works	1,229,290	1,068,621	1,033,642	1,442,432
Human Services	153,582	167,850	155,649	188,535
Culture and Recreation	338,532	414,478	398,393	351,489
Employee Benefits	4,112,215	4,069,159	3,934,926	3,835,644
Debt Service	984,350	1,153,975	1,143,500	1,142,850
Intergovernmental	710,325	741,692	709,191	696,232
Insurance	--	--	--	--
Total Expenditures	<u>\$23,501,190</u>	<u>\$22,697,341</u>	<u>\$21,758,766</u>	<u>\$21,345,369</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,109,346</u>	<u>688,698</u>	<u>308,859</u>	<u>15,218</u>
Other Financing Sources (Uses):				
Operating Transfers In	27,544	32,710	17,891	590,867
Operating Transfers Out	<u>(339,513)</u>	<u>(346,482)</u>	<u>(343,971)</u>	<u>(453,154)</u>
Total Other Financing Sources (Uses)	<u>\$(311,969)</u>	<u>\$ (313,772)</u>	<u>\$ (326,080)</u>	<u>\$ 137,713</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	797,377	374,926	(17,221)	152,931
Fund Equity, Beginning (2)	<u>\$5,515,172</u>	<u>\$ 5,140,246</u>	<u>\$ 5,157,467</u>	<u>\$ 5,004,536</u>
Fund Equity, Ending	<u>\$6,312,549</u>	<u>\$ 5,515,172</u>	<u>\$ 5,140,246</u>	<u>\$ 5,157,467</u>

(1) Extracted from the audited financial statements for the Town. Fiscal 2022 taken from the draft audited financial statements of the Town.

APPENDIX B

There follows in this Appendix B a copy of the audited financial statements for the Town as of June 30, 2021, as prepared by Adelson & Company, Pittsfield, Massachusetts. Copies of prior year audits are available on request.

TOWN OF LEE, MASSACHUSETTS

**Financial Statements and
Supplementary Information**

June 30, 2021

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TOWN OF LEE, MASSACHUSETTS

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Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

AUDIT | TAX | ADVISORY

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

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen of
TOWN OF LEE, MASSACHUSETTS

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lee, Massachusetts, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Lee, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lee, Massachusetts as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5, the Schedule of Changes in Net Other Postemployment Benefits (OPEB) Liability and Related Ratios and Schedule of OPEB Contributions on pages 38 and 39, and the Schedule of Proportionate Share of Net Pension Liability and Pension Contributions on page 40, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 2, 2022 on our consideration of the Town of Lee, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Lee, Massachusetts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Lee, Massachusetts' internal control over financial reporting and compliance.

Adelson + Company PC

ADELSON & COMPANY PC

March 2, 2022

TOWN OF LEE, MASSACHUSETTS

Management's Discussion and Analysis

For the Year Ended June 30, 2021

As management (town administrator and fiscal department) of the Town of Lee, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2021. Readers should consider, as a whole, the information presented here along with the Town's basic financial statements that follow this section.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The *statement of net position* presents information on all of the Town's assets and liabilities with the difference between the two reported as net position

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

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

The government-wide financial statements can be found on pages 6 and 7 of this report.

Fund Financial Statements

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

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. The focus of governmental funds is, however, narrower than that of the government-wide financial statements. It may be useful for the reader to comparatively address the information presented for governmental funds with the similar information presented for the government-wide financial statements. This may give a better understanding of management's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town adopts an annual appropriated budget for its general fund. A budget to actual expenditures comparison statement has been provided for the general fund to demonstrate compliance with this budget which can be found on page 11 of this report. Massachusetts statutory regulations require the Town to establish an annual balanced budget to monitor its revenues and expenses. This is accomplished through the open town meeting process and voter participation. A balanced budget reflects estimates for expenses to operate the Town departments and equal revenues to support these costs. Revenues consist of three significant components: property and excise taxes, governmental aid, and other incidental income. The overall budget frequently requires the funding of special articles and the insufficient matching of revenue to cover total expenses. Accordingly, this budget deficit is funded (balanced budget theory) by appropriating from available funds (also described as free cash, carryover surplus, cumulative fund balance) the needed amount to equalize revenues for the budgetary deficit / shortfall.

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

Proprietary funds

Proprietary funds report the enterprise activities of the Town. Enterprise funds are used to report business-type activities that are presented in the government-wide financial statements. The Town uses enterprise funds to account for the water and sewer service. The proprietary fund financial statements can be found on pages 12 to 14 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

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

The fiduciary fund financial statements can be found on pages 15 and 16 of this report.

Notes to the financial statements and supplementary information

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements and supplementary information can be found on pages 17 to 42 of this report.

Government-Wide Financial Statement Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$27,614,896 at the close of the most recent fiscal year. This represents an increase in net position over the prior fiscal year of \$6,701,100.

TOWN OF LEE, MASSACHUSETTS SUMMARY STATEMENT OF NET POSITION

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

Net position of \$37,674,965 reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Borrowings are made periodically to finance significant projects.

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

- All infrastructures (such as roads, buildings and land)
- Long-term debt
- The Town is required to measure and report a long-term projected benefit obligation associated with postemployment benefits (or OPEB) earned by employees for services rendered to date, as opposed to when the benefit is actually paid.

- The Town is required to report a long-term projected benefit obligation for its proportionate share of the Berkshire County Contributory Retirement System's net pension liability.

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

Statement of Activities

The Statement of Activities reflects total operating expenses for the Town as \$28,319,064 for all activities. Revenues totaled \$35,020,164 for all activities. The net change result of \$6,701,100 is an increase in net position.

TOWN OF LEE, MASSACHUSETTS SUMMARY STATEMENT OF ACTIVITIES

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

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

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

Property Taxes

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

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

Financial Analysis of the Governmental Fund Statements

Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$11,674,721. Of this amount, \$8,129,566 is restricted, committed and assigned for specific purposes such as capital projects, community preservation, encumbrances, and reducing free cash to help reduce the tax rate. This leaves an unassigned governmental fund balance of \$3,545,155 for the general fund.

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

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

- Also included in the expenses is debt service of \$1,791,279 (\$1,721,929 principal repayment and \$69,350 interest expense). These amounts are budgeted as expenses in the governmental funds but the principal repayment of \$1,721,929 is a reduction of long-term debt which is reported on the government-wide statement of net position.

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

Enterprise funds

The Town's enterprise funds (water and sewer) provide the same type of information found in the government-wide statements but in more detail. As of the end of the current fiscal year, the Town's enterprise funds reported a combined ending net position of \$17,121,640. Of this amount, \$12,995,042 is invested in capital assets which is net of any related debt used to acquire or construct those assets, and \$4,126,598 is unrestricted which can be used to meet the financial needs of ongoing operations.

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

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

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

General Fund Budgetary Highlights

The Town's budget sustained it throughout the entire fiscal year. For the majority of the categories, expenditures were within a comfortable percentage of the amounts budgeted and departments have reliably kept spending to a minimum. The Budget and Actual (Non-GAAP Basis) General Fund Statement of Revenues and Expenditures is shown on page 11 of this report.

- The Town reported an unfavorable budget variance of \$92,468 for property tax revenue. The Town's budgeted property tax revenue of \$13,055,358 is based upon taxes levied less estimated abatements and exemptions. The actual property tax revenue received of \$12,962,890 is based upon actual collections received (resources available). The unfavorable variance is a result of timing of collections and actual abatements and exemptions provided. It is important to note that the Town, as of June 30, 2021, collected 97% of the real estate taxes committed for fiscal year 2021.
- The Town reported a net favorable budget variance of \$773,953 for collection of excise and other taxes. The favorable variance primarily consists of \$109,965 motor vehicle excise tax above budget, \$99,779 room and meals tax above budget, and \$544,754 cannabis excise tax above budget.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets as of June 30, 2021, amounts to \$50,577,640 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

TOWN OF LEE, MASSACHUSETTS CAPITAL ASSETS (NET OF DEPRECIATION)

	Governmental Activities	Business-type Activities	Total
Land	\$ 2,457,263	\$ -	\$ 2,457,263
Construction in process	2,986,794	121,432	3,108,226
Buildings and improvements	14,102,696	16,901,558	31,004,254
Land improvements	591,704	-	591,704
Machinery and equipment	1,303,413	137,747	1,441,160
Infrastructure	5,561,345	6,413,688	11,975,033
Total	<u>\$ 27,003,215</u>	<u>\$ 23,574,425</u>	<u>\$ 50,577,640</u>
Current year additions:			
School equipment	\$ 104,199	\$ -	\$ 104,199
Library purchases	29,316	-	29,316
Plow truck	16,499	-	16,499
Salt shed roof	48,500	-	48,500
Fire Dept heating system	55,600	-	55,600
Infrastructure improvements	2,819,764	-	2,819,764
Total	<u>\$ 3,073,878</u>	<u>\$ -</u>	<u>\$ 3,073,878</u>

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

Long-term debt

At the end of the current fiscal year, the Town had total debt outstanding of \$12,902,675. This amount is comprised of the following which are all direct obligations and pledges the full faith and credit of the Town.

TOWN OF LEE, MASSACHUSETTS DEBT AS OF JUNE 30, 2021

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

Additional information on the Town's long-term debt can be found on pages 27 and 28 of this report.

Economic Factors and next year's Budgets and Rates

- Normally state aid to the Town increases; however, with the current condition of the Commonwealth's budget, no significant increases in state aid are anticipated for several years.
- The aggregate annual increase to existing property tax revenues is limited to 2½ % allowed by M.G.L Chapter 59, Section 21C.
- The Town's fiscal year 2022 operating and capital budget can be found on page 37 of this report.

Impact of COVID-19

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

Requests for information

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

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF NET POSITION

June 30, 2021

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

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

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

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2021

	General Fund	Other Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 6,050,137	\$ 4,848,599	\$ 10,898,736
Investments	454,891	224,330	679,221
Receivables, net	845,402	4,336	849,738
Tax liens and foreclosures	354,407	-	354,407
Due from other governments	-	326,166	326,166
Total assets	<u>\$ 7,704,837</u>	<u>\$ 5,403,431</u>	<u>\$ 13,108,268</u>
Liabilities			
Warrants and other payables	\$ 214,491	\$ 32,607	\$ 247,098
Payroll and related liabilities	65,368	4,316	69,684
Total liabilities	<u>279,859</u>	<u>36,923</u>	<u>316,782</u>
Deferred inflows of resources			
Revenue not considered available	<u>1,112,429</u>	<u>4,336</u>	<u>1,116,765</u>
Fund balances			
Restricted	64,301	5,362,172	5,426,473
Committed	295,769	-	295,769
Assigned	2,407,324	-	2,407,324
Unassigned	<u>3,545,155</u>	<u>-</u>	<u>3,545,155</u>
Total fund balances	<u>6,312,549</u>	<u>5,362,172</u>	11,674,721
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,704,837</u>	<u>\$ 5,403,431</u>	

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	27,003,215
Accrued interest on outstanding debt is recorded on the statement of net position, whereas in the governmental funds, interest is not reported until due	(3,156)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(2,363,481)
Net pension liability	(2,015,317)
Net other postemployment benefits liability	(24,919,491)
Revenues are reported on the accrual basis of accounting and not deferred	1,116,765
Net position of governmental activities	<u>\$ 10,493,256</u>

See notes to financial statements.

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

For the Year Ended June 30, 2021

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

See notes to financial statements.

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

For the Year Ended June 30, 2021

Net change in fund balances of total governmental funds	\$ 1,966,603
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital asset purchases capitalized	3,073,878
Depreciation expense	(1,475,204)

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

52,615

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

Issuance of long-term debt	(648,292)
Debt principal payments	1,721,929

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

Decrease in unamortized bond premium	40,189
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Decrease in accrued interest payable	3,182
Decrease in net pension liability, net of deferred inflows and outflows	723,486
Decrease in net postemployment benefits liability, net of deferred inflows and outflows	608,887

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

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

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

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2021

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

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2021

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

See notes to financial statements.

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

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

See notes to financial statements.

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

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

See notes to financial statements.

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

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

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

Notes to Financial Statements

June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

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

B. Government-wide and fund financial statements

Government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund financial statements

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

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

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

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

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

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

The Town reports the following major governmental funds:

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

The Town reports the following major proprietary funds:

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

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

The Town reports the following Fiduciary Funds:

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

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

Accounting estimates

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

Subsequent events

Management has evaluated subsequent events through March 2, 2022, the date that the financial statements were available for issue, and has determined that there are no additional adjustments or disclosures required.

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

Interfund receivables and payables

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

Property taxes receivable

The Town’s property tax is levied each July 1 on the assessed value listed as of the prior January 1, for all real and personal property located in the Town. Assessed values are established by the Board of Assessors at a percentage of estimated market value. The Town is required to have its assessed values certified by the State every three years. The assessed value for the fiscal 2021 levy was \$962,601,871. A tax rate of \$14.68 per thousand was applied to the levy. Real and personal property taxes are due and payable in two installments on November 1 and May 1 following the assessment date. An allowance for uncollectible taxes is determined and recorded based upon the tax levy.

A statewide tax limitation statute known as “Proposition 2 ½” limits the property tax levy to an amount equal to 2 ½% of the value of all taxable property in the Town (levy ceiling). A secondary limitation is that no levy in a fiscal year may exceed the preceding year’s allowable tax levy by more the 2 ½%, plus taxes levied on certain property newly added to the tax rolls (levy limit). Certain Proposition 2 ½ taxing limitations can be overridden by a Town-wide referendum vote. For fiscal year 2021, the Town’s tax levy was \$14,130,995, which was below both its levy limit of \$17,672,417 (levy limit of \$17,242,283 plus debt exclusions of \$430,134) and levy ceiling of \$24,065,047.

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

Inventories and prepaid items

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

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

Capital assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Interest expense capitalized during the current fiscal year was \$-0-.

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

<u>Assets</u>	<u>Years</u>	<u>Assets</u>	<u>Years</u>
Buildings	40 - 50	Vehicles	5 - 7
Building improvements	20	Office equipment	5
Infrastructure	20 - 50	Computer equipment	3 - 5

Compensated absences

With the exception of the Lee Police Department, it is the Town's policy not to permit employees to accumulate earned but unused sick and vacation pay benefits beyond June 30. The Lee Police Association agreement allows department employees to accumulate sick time up to 180 days. Employees that meet certain criteria may be compensated for up to 10% of this accumulated time upon retirement. This amount is immaterial and, accordingly, no liability is reported in the accompanying financial statements.

Long-term obligations

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

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

Government-wide and proprietary net positions

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

Invested in capital assets, net of related debt

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

Restricted

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

Unrestricted

All other net assets are reported in this category.

Governmental fund balances

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

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

All amounts not included in other spendable classifications.

Encumbrances and continuing appropriations

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

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

Encumbrances and continuing appropriations are reported with restricted, committed, or assigned fund balance in the accompanying balance sheet. Encumbrances and continuing appropriations are combined with expenditures for budgetary comparison purposes.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

1. Prior to March 1, the Town Administrator submits to the Finance Committee a proposed budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in the Town to obtain taxpayer comments.
3. The budget is legally enacted at the annual Town meeting by vote of the Town meeting representatives in May.

4. Throughout the fiscal year any unencumbered appropriation, balance or portion thereof, may be transferred from one department, commission, board or office, to another by a vote at a Special Town Meeting. The Finance Committee controls a reserve fund, which, at their discretion, may be used to alter total expenditures.
5. Appropriations for certain projects and specific items not fully expended at the fiscal year-end are carried forward as continued appropriations to the new fiscal year or until project completion. The Town's policy is to carry forward encumbrances as continued appropriations at the fiscal year end.

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

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

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

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

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Cash, cash equivalents, and investments

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

B. Deposits and investments

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

Concentration Risk

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

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of bank failure, the Town's deposits may not be returned. The Town carries deposits that are fully insured by FDIC insurance, collateralized, and deposits that are not collateralized and are uninsured. Bank deposits as of June 30, 2021 were \$15,202,475 of which \$15,035,622 is insured and collateralized and \$166,853 is uninsured.

Investment Policy

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

Investment Fair Value

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

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

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

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

Interest Rate Risk

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

Custodial credit risk - investments

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

Other Postemployment Benefits Liability Trust Fund

In fiscal year 2017, the Town adopted Massachusetts General Law Chapter 32B, Section 20, authorizing the establishment of a separate fund to be known as the Other Post-Employment Benefits Liability Trust Fund, and other provisions as outlined in said statute. The Town adheres to an OPEB *Investment Policy Statement* which dictates the types of investments allowed, diversification, restrictions on investments, relationship with financial institutions, and standards of care to be used by the Treasurer in the context of managing the overall OPEB investment portfolio.

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

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

The above investments are reported in the following funds:

Governmental funds

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

Fiduciary funds

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

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

Receivables at June 30, 2021, are as follows:

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

D. Capital assets

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

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

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

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

Governmental activities

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

Business-type activities

Water	\$ 394,716
Sewer	641,634
Total depreciation expense, business-type activities	<u>\$ 1,036,350</u>

E. Long-term debt

General obligation bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. The following general obligation bonds have been issued:

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

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

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

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 1,473,292	\$ 41,339	\$ 1,514,631	\$ 1,297,033	\$ 285,057	\$ 1,582,090
2023	850,000	12,750	862,750	1,327,168	254,922	1,582,090
2024	-	-	-	1,358,089	224,001	1,582,090
2025	-	-	-	1,389,818	192,272	1,582,090
2026	-	-	-	1,422,384	172,288	1,594,672
2027 - 2031	-	-	-	2,339,211	475,493	2,814,704
2032 - 2036	-	-	-	1,254,075	209,428	1,463,503
2037	-	-	-	191,605	8,622	200,227
Total	<u>\$ 2,323,292</u>	<u>\$ 54,089</u>	<u>\$ 2,377,381</u>	<u>\$ 10,579,383</u>	<u>\$ 1,822,083</u>	<u>\$ 12,401,466</u>

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

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

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

F. Temporary Borrowings

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

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

The Town is financing the replacement of the boiler at the high school, the purchase of two dump trucks for the highway department, and certain road paving by rolling over short-term bonds for lesser amounts each year. The total short-term bonds outstanding at June 30, 2021 were \$648,292. The Town has no other short-term anticipation notes outstanding at June 30, 2021.

G. Restricted fund balance on June 30, 2021

	General Fund	Nonmajor Funds	Total
Restricted:			
Debt service	\$ 64,301		\$ 64,301
Special revenue funds		\$ 4,455,952	4,455,952
Capital project funds		677,855	677,855
Expendable trust funds		35,415	35,415
Nonexpendable trust funds		192,950	192,950
Total restricted fund net assets	<u>\$ 64,301</u>	<u>\$ 5,362,172</u>	<u>\$ 5,426,473</u>

NOTE 4 - OTHER INFORMATION

A. Risk management

Risks transferred to third parties

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

B. Contingent liabilities

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

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

C. Other postemployment benefits

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

Plan Description and Benefits Provided

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

Retirement Eligibility:	An employee hired before April 2, 2012 shall become eligible to retire upon attainment of age 55 as an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age. Employees hired on or after April 2, 2012 shall be eligible to retire upon attainment of age 60 with 10 years of creditable service.
Creditable Service:	Elapsed time from date of hire to termination of service date.
Participant Contributions:	Retirees shall pay 60% of premiums for medical and 50% for life insurance.
Medical Coverage:	Comprehensive medical insurance offered through Blue Cross Blue Shield of Massachusetts.
Life Insurance Coverage:	Retirees are eligible for a \$5,000 life insurance benefit.

Plan Membership at June 30, 2021

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

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation performed as of July 1, 2019, rolled forward to the measurement date of June 30, 2021 and using the following assumptions, applied to all periods included in the measurement:

Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	Market Value of Assets
Investment Rate of Return:	6.36%, net of OPEB plan investment expense, including inflation.
Discount Rate:	3.75% per annum
Inflation:	2.50%
Healthcare Cost Trend Rate:	4.50% per annum
Pre-retirement Mortality:	It is assumed that pre-retirement mortality is represented by the RP-2014 Blue Collar Employees Mortality Table projected generationally with Scale MP-2016 for males and females, set forward 1 year for females.
Post-retirement Mortality:	It is assumed that post-retirement mortality is represented by the RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016 for males and females, set forward 1 year for females.
Disabled Mortality:	It is assumed that disabled mortality is represented by the RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016 for males and females, set forward 1 year.

Change in Net OPEB Liability

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

Trust Fund

In fiscal year 2013, the Town adopted Massachusetts General Laws Chapter 32B, Section 20, authorizing the establishment of a separate fund to be known as the Other Post-Employment Benefits Liability Trust Fund, and other provisions as outlined in said statute. The assets in the trust fund are held by the Town in an investment account and are not held in a separate legal trust. Accordingly, the total assets of \$662,274 as of June 30, 2021 are reported as fiduciary funds in the Statement of Fiduciary Net Position.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB's fiduciary net position was projected to be insufficient to make all projected payments of current plan members. Therefore, a 3.75% discount rate was applied to all periods to determine the total OPEB liability.

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

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

	Discount Rate		
	1% Decrease (2.75%)	Current (3.75%)	1% Increase (4.75%)
Net OPEB liability as of June 30, 2021	\$ 29,771,883	\$ 25,674,720	\$ 22,388,628

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

Deferred Outflows and Inflows of Resources

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

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

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

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

The net OPEB liability and deferred outflows and inflows of resources is reported in the Town's government-wide Statement of Net Position as follows for the year ended June 30, 2021:

	Governmental Activities	Business-type Activities	Total
Net OPEB liability	\$ 25,147,831	\$ 526,889	\$ 25,674,720
Less deferred outflows of resources	2,263,972	47,433	2,311,405
Plus deferred inflows of resources	<u>2,035,632</u>	<u>42,651</u>	<u>2,078,283</u>
Net OPEB liability, net of deferred outflows and inflows of resources	<u>\$ 24,919,491</u>	<u>\$ 522,107</u>	<u>\$ 25,441,598</u>

D. Berkshire County Contributory Retirement System

Plan description

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

Results of the Plan are based on liabilities developed in an actuarial valuation performed as of January 1, 2019 and rolled forward to the Plan's measurement date of December 31, 2020.

Accounting policy

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

Plan membership

At December 31, 2020, pension plan membership consisted of the following:

Active plan members	1,151
Retirees and beneficiaries receiving benefits	816
Terminated plan members entitled to but not yet receiving benefits	<u>216</u>
Total	<u>2,183</u>
Number of participating employers	<u><u>46</u></u>

Benefits and contributions

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

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

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

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

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

Pension liabilities, expense and deferred outflows and inflows of resources

At June 30, 2021, the Town reported a net pension liability of \$1,286,147, deferred outflows related to pensions of \$834,897, and deferred inflows related to pensions of \$1,730,275 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension relative to the projected contributions of all participating Plan employers, actuarially determined. At December 31, 2020, the Town's proportion was 10.03%. Net pension liability, deferred outflows/inflows of resources and pension expense are allocated to each employer based on its proportionate share of total employer contributions. For the year ended June 30, 2021, the Town recognized pension expense of \$323,984 (contractually required contribution of \$1,093,511 paid into the Plan less the change in the estimated net pension liability of \$769,527). Contributions made subsequent to the measurement date of December 31, 2020 were \$-0-.

Actuarial assumptions

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

Investment rate of return:	7.00% net of pension plan investment expense, including inflation.
Salary increases:	4.25% for Group 1 and 4.75% for Group 4.
Inflation:	Not explicitly assumed.
Cost of Living Adjustment	3% of first \$14,000.
Mortality:	<p>Pre-retirement rates reflect the RP-2014 Blue Collar Employees table projected generationally with Scale MP-2018 (gender distinct).</p> <p>Post retirement rates reflect the RP-2014 Healthy Annuitant table projected generationally with Scale MP-2018 (gender distinct).</p> <p>For disabled retirees, the rates reflect the RP-2014 Blue Collar Healthy Annuitant table set forward 1 year projected generationally with Scale MP-2018 (gender distinct).</p>

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

Target allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rate of return for each major asset class included in the Plan's targeted asset allocation as of December 31, 2020 are summarized in the following table:

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

Changes in net pension liability

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

Deferred Outflows and Inflows of Resources

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

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

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

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

The net pension liability and deferred outflows and inflows of resources are reported in the Town's Statement of Net Position as follows for the year end June 30, 2021:

	Governmental Activities	Business-type Activities	Total
Net pension liability	\$ 1,173,508	\$ 112,639	\$ 1,286,147
Less deferred outflows of resources	784,946	49,951	834,897
Plus deferred inflows of resources	<u>1,626,755</u>	<u>103,521</u>	<u>1,730,276</u>
Net pension liability, net of deferred outflows and inflows of resources	<u>\$ 2,015,317</u>	<u>\$ 166,209</u>	<u>\$ 2,181,526</u>

Pension Plan Fiduciary Net Position

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

Payable to Pension Plan

At June 30, 2021 the Town reported a payable of \$-0- for outstanding amounts of contributions to the pension plan.

E. Massachusetts Teachers Retirement System

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

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

The Town's portion of the collective pension expense for fiscal year 2021 was \$2,978,050, which is reported in the government-wide statement of activities as education expense and state aid revenue. The Town's proportionate share of the systems net pension liability is \$24,110,965 or 0.0845% of the collective net pension liability of \$28,544,844,000.

F. 2022 Budget

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

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

TOWN OF LEE, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION

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

June 30,

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

Notes to Schedule:

Changes of benefit terms: None.

Changes of assumptions:

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

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

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

See independent auditors' report.

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

June 30,

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

Notes to Schedule

Valuation date:

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

Methods and assumptions used to determine contribution rates:

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

See independent auditors' report.

TOWN OF LEE, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

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

	Plan Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
Berkshire County Retirement System net pension liability	\$ 12,823,000	\$ 30,630,000	\$ 43,744,000	\$ 25,853,000	\$ 39,772,000	\$ 42,317,000	\$ 26,259,000
Town's proportion of the net pension liability	10.03%	10.30%	10.05%	10.35%	10.09%	10.28%	10.81%
Town's proportionate share of the net pension liability	\$ 1,286,147	\$ 3,154,890	\$ 4,396,272	\$ 2,675,786	\$ 4,012,995	\$ 4,350,188	\$ 2,838,599
Town's covered-employee payroll	\$ 5,563,715	\$ 5,429,330	\$ 5,195,747	\$ 5,086,539	\$ 5,076,727	\$ 4,767,736	\$ 4,752,104
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.12%	58.11%	84.61%	52.61%	79.05%	91.24%	59.73%
Plan fiduciary net position as a percentage of the total pension liability	95.93%	89.88%	84.41%	90.41%	84.06%	82.25%	88.13%

Schedule of Town's Pension Contributions

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

Notes to the Required Supplementary Information

Changes of benefit terms: None

Changes of assumptions: Changes in economic and demographic assumptions

Last 10 years: Only plan years 2014 to 2020 available

See independent auditors' report.



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CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

AUDIT | TAX | ADVISORY

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

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

To the Board of Selectmen
TOWN OF LEE, MASSACHUSETTS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of Town of Lee, Massachusetts, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Town of Lee, Massachusetts' basic financial statements, and have issued our report thereon dated March 2, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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March 2, 2022