

## Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

Issuer's and/or Other Obligated Person's Name: Town of Lee, Massachusetts

CUSIP Numbers (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates: \_\_\_\_\_  
☒ Information relates to **all securities** issued by the issuer having the following six-digit number(s): 523840

Number of pages of attached information: 79

Description of Material Event Notice / Financial Information (Check One):

1. ☐ Principal and interest payment delinquencies
2. ☐ Non-payment related defaults
3. ☐ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ☐ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ☐ Substitution of credit or liquidity providers, or their failure to perform
6. ☐ Adverse tax opinions or events affecting the tax-exempt status of the security
7. ☐ Modifications to rights of security holders
8. ☐ Bond calls
9. ☐ Defeasances
10. ☐ Release, substitution, or sale of property securing repayment of the securities
11. ☐ Rating changes
12. ☐ Failure to provide annual financial information as required
13. ☐ Other material event notice (specify)
- \*14. ☒ Financial information: Please check all appropriate boxes:

CAFR (a) ☐ includes ☐ does not include Annual Financial Information  
(b) Audited? ☐ Yes ☐ No

Annual Financial Information: Audited? ☒ Yes ☐ No  
Operating Data

Fiscal Period Covered: 2008 - unaudited; 2007 - audited

**\*Financial information should not be filed with the MSRB**

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: \_\_\_\_\_

Name: Clark H. Rowell Title: Vice President

**UniBank Fiscal Advisory Services, Inc.**  
49 Church Street  
Whitinsville, MA 01588  
(508) 234-8112

## **THE TOWN OF LEE, MASSACHUSETTS**

Lee, incorporated as a Town in 1777, 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 board of three selectmen 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:

<b><u>Office</u></b>	<b><u>Name</u></b>	<b><u>Manner of Selection and Term</u></b>	<b><u>Term Expires</u></b>
Selectmen	Frank A. Consolati, Chairman	Elected/3 years	2009
	Gordon Bailey	Elected/3 years	2011
	Patricia Carlino	Elected/3 years	2010
Town Administrator	Robert Nason	Appointed/3 years	2009
Treasurer	Susan E. Kelley	Appointed/Indefinite	--
Clerk	Suzanne M. Scarpa	Appointed/Indefinite	--
Collector	Janice G. Smith	Appointed/Indefinite	--
Town Accountant	Kathleen Borden	Appointed/Indefinite	--
Town Counsel	Jeremiah Pollard	Appointed/1 year	2009

## **SERVICES**

The Town provides general governmental services for the territory within its boundaries including sewer and water services for 80% and 90% 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.

## **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 loans 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. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds, sewer bonds, and solid waste disposal facility bonds and economic development bonds supported by tax increment financing, and subject to special debt limits, bonds for water (limited to 10 per cent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas and community antenna television systems and telecommunications systems (subject to a separate limit equal to the General Debt Limit, including the same doubling provision). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other 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. Level debt service is permitted for bonds or notes issued for certain purposes, including self-supporting enterprise purposes, certain state-aided school projects and certain community preservation and open space projects as well as for those projects for which debt service has been exempted from property tax limitations. 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. Most of the purposes are capital projects. 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 term measured from the date of the original bonds or notes. 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.

**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 five 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. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) 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 and county reimbursements. 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 Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition to general obligation bonds and notes, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy. The Town does not have an electric department.

## **DEBT (1)**

The following shows the direct debt to be outstanding as of March 15, 2009:

### **General Obligation Bonds:**

Within General Debt Limit (2)		
Schools	\$ 2,750,000	
Other Buildings	90,000	
Departmental Equipment	20,000	
Architectural & Engineering Services	<u>101,718</u>	
Total Within General Debt Limit		\$ 2,961,718
Outside General Debt Limit:		
Water (3)	\$ 4,867,879	
Sewer	19,683,316	
Schools	<u>10,510,000</u>	
Total Outside General Debt Limit		<u>35,061,195</u>
Total Outstanding General Obligation Bonds (4)		<u>\$38,022,913</u>
Temporary Loans in anticipation of:		
Revenue	\$ 0	
Bonds	0	
Grants	<u>0</u>	
Total Temporary Loans		<u>0</u>
Total Direct Debt		<u>\$38,022,913</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 \$38,389,685 and the Double General Debt Limit (see Debt Limits above) is \$76,779,370.

(3) Fully supported by user fees.

(4) \$13,280,000 has been exempted from the provisions of Proposition 2½.

## **AUTHORIZED UNISSUED DEBT AND PROSPECTIVE FINANCINGS**

The Town has authorized unissued long-term debt in the amount of \$872,156, the remainder of an authorization of \$22,300,000 for the design and construction of a new wastewater treatment facility. Debt service is expected to be entirely user rate supported. The Town does not expect to borrow against this remaining authorization.

## **FIVE YEARS OUTSTANDING DEBT (1)**

	<b>As of June 30</b>				
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Long Term Indebtedness					
Within the General Debt Limit:					
Land Acquisition	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10,000
Schools	2,750,000	2,915,000	3,075,000	3,240,000	20,000
Departmental Equipment	30,000	70,000	115,000	160,000	205,000
Streets Sidewalks & Parking	0	5,000	10,000	15,000	20,000
Architectural and Engineering Services	114,537	127,054	139,276	151,216	162,912
Other Building	<u>120,000</u>	<u>150,000</u>	<u>190,000</u>	<u>230,000</u>	<u>275,000</u>
Total Within the General Debt Limit	\$ 3,014,537	\$ 3,267,054	\$ 3,529,276	\$ 3,796,216	\$ 692,912
Outside the General Debt Limit					
Schools	\$10,510,000	\$10,995,000	\$11,460,000	\$11,905,000	\$12,330,000
Sewer	20,582,754	21,427,844	0	0	0
Other Outside General	0	35,000	75,000	115,000	155,000
Water	<u>5,029,475</u>	<u>5,215,095</u>	<u>5,397,028</u>	<u>5,575,432</u>	<u>5,750,461</u>
Total Outside the General Debt Limit	<u>36,122,229</u>	<u>37,672,939</u>	<u>16,932,028</u>	<u>17,595,432</u>	<u>18,235,461</u>
Total Long Term Indebtedness	<u>\$39,136,766</u>	<u>\$40,939,993</u>	<u>\$20,461,304</u>	<u>\$21,391,648</u>	<u>\$18,928,373</u>
Short Term Indebtedness					
Revenue Anticipation Notes	\$ N/A	\$ N/A	\$ N/A	\$ 0	\$ 0
Grant Anticipation Notes	N/A	N/A	N/A	0	0
Bond Anticipation Notes	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>0</u>	<u>13,112,500</u>
Total Short Term Indebtedness	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ 0</u>	<u>\$13,112,500</u>
Total Outstanding Indebtedness	<u>\$39,136,766</u>	<u>\$40,939,993</u>	<u>\$20,461,304</u>	<u>\$21,391,648</u>	<u>\$32,040,873</u>

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

## **BOND DEBT VS. POPULATION, VALUATIONS AND INCOME**

	<b>As of June 30</b>				
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Amount (000 omitted) (1)	\$39,317	\$40,940	\$20,461	\$21,392	\$18,928
Per Capita (2)	\$6,744	\$7,055	\$3,525	\$3,665	\$3,236
Percent of Assessed Valuation (3)	4.52%	5.18%	2.92%	3.29%	3.36%
Percent of Equalized Valuation (4)	5.10%	5.33%	2.86%	2.99%	3.32%
Amount per Capita as a Percent of Personal Income Per Capita (2)	34.06%	35.63%	17.80%	18.51%	16.34%

(1) Outstanding principal on general obligation bonds. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

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

(3) Assessed valuation used here is the assessed valuation for that fiscal year.

(4) Equalized valuation used here is the equalized valuation in effect for that fiscal 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 long-term debt service payable as of March 30, 2009.

<b>Fiscal Year</b>	<b><u>Outstanding as of 03/15/09</u></b>		<b>% Principal</b>	
	<b><u>Principal (2)</u></b>	<b><u>Interest (2)</u></b>	<b><u>Total</u></b>	<b><u>Retired</u></b>
2009	\$ 707,876	\$ 332,937	\$ 1,040,813	1.9%
2010	1,774,279	1,124,228	2,898,507	6.5
2011	1,827,399	1,075,101	2,902,500	11.3
2012	1,872,162	1,022,184	2,894,346	16.3
2013	1,901,051	968,317	2,869,368	21.3
2014	1,965,536	905,119	2,870,655	26.4
2015	2,020,635	847,755	2,868,390	31.7
2016	2,086,365	787,667	2,874,032	37.2
2017	2,142,745	722,386	2,865,131	42.9
2018	2,209,795	654,537	2,864,332	48.7
2019	2,282,532	586,800	2,869,332	54.7
2020	2,360,979	515,572	2,876,551	60.9
2021	2,265,155	440,546	2,705,701	66.8
2022	2,220,082	369,254	2,589,336	72.7
2023	2,310,783	278,505	2,589,289	78.8
2024	1,387,282	226,116	1,613,398	82.4
2025	1,419,602	193,797	1,613,398	86.1
2026	1,452,767	160,631	1,613,398	90.0
2027	1,486,805	126,593	1,613,398	93.9
2028	206,490	104,809	311,299	94.4
2029	215,782	95,517	311,299	95.0
2030	225,493	85,806	311,299	95.6
2031	235,640	75,659	311,299	96.2
2032	246,244	65,055	311,299	96.8
2033	257,324	53,975	311,299	97.5
2034	268,904	42,395	311,299	98.2
2035	279,639	30,294	309,933	99.0
2036	201,961	17,711	219,672	<u>99.5</u>
2037	<u>191,606</u>	<u>8,622</u>	<u>200,228</u>	<u>100.0%</u>
	<b><u>\$38,022,913</u></b>	<b><u>\$11,917,887</u></b>	<b><u>\$49,940,799</u></b>	

(1) Excludes short-term debt, lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) Principal totaling \$13,280,000 and interest totaling \$4,399,506 has been exempted from the provisions of Proposition 2½.



## **CONTRACTS**

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interest, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter long term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be 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. The Town has not entered into any long-term contracts of a substantial nature.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities. Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facilities. The Town does not have an electric department.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, (see Constitutional Status and Form of Government above), cities and towns may also be empowered to make other contracts and leases.

## **OVERLAPPING DEBT (1)**

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

	<b><u>Outstanding</u></b>	<b><u>Authorized Unissued</u></b>	<b><u>Estimated Share of Lee</u></b>	<b><u>Assessment for Operations and Debt Service Fiscal Year 2009</u></b>
Berkshire Regional Transit Authority (2)	\$0	\$0	0%	\$40,386

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

(2) Source: Administrator, Berkshire Regional Transit Authority. Debt is as of March 15, 2009.

## **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 the 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's 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. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2028, with annual increases in the scheduled payment amounts of not more than 4.5 percent. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule.

Under recent legislation, cities and towns that accept its provisions and that obtain certain state approvals therefore may, within limits, reduce the amount of their scheduled appropriations for fiscal year 2004 and fiscal year 2005 for the unfunded portion of their pension liability to offset recent reductions in state aid. Cities and towns that reduce such appropriations are required to revise their retirement system funding schedule for eliminating their unfunded pension liability and may extend such schedule by one year, provided that in no event may such funding schedule extend beyond June 30, 2028. The Town of Lee has not accepted this provision.

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.

The Town participates in the contributory retirement system of Berkshire Regional Retirement Board. The annual contributions to the retirement system for the most recent years, and the amount budgeted for fiscal 2009, are set forth below:

<u>Year</u>	<u>Total</u>
2009 (budgeted)	\$644,546
2008 (unaudited)	631,369
2007	631,369
2006	571,815
2005	535,962

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 provision are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked.

In addition to pension benefits, cities and towns may provide retired employees with payments for a portion of their health care and life insurance benefits. These benefit payments are generally provided on a pay-as-you-go basis.

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.

As of January 1, 2007 the Berkshire Regional Retirement System had assets valued at \$116,470,310n actuarial accrued liability of \$142,103,851 estimated unfunded actuarial liability in the amount of \$25,633,541. The valuation was performed by the Public Employee Retirement Administration Commission.

Separate actuarial valuations have not been done for the individual towns participating in the Berkshire County System.

## **PROPERTY TAXATION AND VALUATION**

**Tax Rate and Valuation.** Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). 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. Until fiscal year 2004, the share required to be borne by residential real property was at least 50 percent of its share of the total taxable valuation; under legislation enacted in the beginning of 2004, however, cities and towns were authorized to reduce the required share to be borne by residential real property to at least 45 per cent of its share of the total taxable valuation in fiscal year 2004, 47 per cent in fiscal year 2005, 49 percent in fiscal year 2006 and 50 per cent thereafter. The effective rate for open space must be at least 75 percent of the effective rate for residential real property. Until fiscal year 2004, the share of commercial, industrial and personal property was limited to not more than 175 per cent of their share of the total valuation; under legislation enacted in the beginning of 2004, however, cities and towns were authorized to increase the limit on the share of the total taxable valuation of such property to not more than 200 per cent in fiscal year 2004, 197 per cent in fiscal year 2005, 190 per cent in fiscal year 2006, 183 percent in fiscal year 2007, 175 per cent in fiscal year 2008, and, if the share of such property in a particular city or town exceeded 175 per cent in any of fiscal years 2004 through 2007, 170 per cent in fiscal years 2009 and thereafter. A city or town may also exempt up to 20 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 three years.

Related statutes provide that certain forestland, 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. Land classified as forestland is valued for this purpose at five percent of fair cash value but not less than ten dollars per acre.

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 valuation" (see Debt Limits above).

## VALUATIONS

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

	<u>For Fiscal Year</u>				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Real Property (1)	\$841,858,880	\$824,975,377	\$755,653,027	\$673,242,696	\$622,718,178
Personal Property (1)	<u>46,866,060</u>	<u>41,524,830</u>	<u>34,118,460</u>	<u>28,106,000</u>	<u>27,138,535</u>
Total	<u>\$888,724,940</u>	<u>\$866,500,207</u>	<u>\$789,771,487</u>	<u>\$701,348,696</u>	<u>\$649,856,713</u>
Equalized Valuation (2)	\$767,793,700	\$767,793,700	\$716,496,000	\$716,496,000	\$716,496,000
Percent of Total Assessed to Equalized Valuation	115.8%	112.9%	110.2%	97.9%	90.7%

(1) As of January 1, of the previous year.

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

The following table shows the breakdown of the total assessed valuation for fiscal years 2007 through 2009 by classification:

<u>Class</u>	<u>Fiscal 2009 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>	<u>Fiscal 2008 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>	<u>Fiscal 2007 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
Residential	\$627,767,153	70.6%	\$614,486,970	70.9%	\$547,292,871	69.3%
Commercial	161,238,923	18.1	157,392,292	18.2	154,988,977	19.6
Industrial	52,852,804	5.9	53,096,115	6.1	53,371,179	6.8
Personal Property	<u>46,866,060</u>	<u>5.3</u>	<u>41,524,830</u>	<u>4.8</u>	<u>34,118,460</u>	<u>4.3</u>
Total	<u>\$888,724,940</u>	<u>100.0%</u>	<u>\$866,500,207</u>	<u>100.0%</u>	<u>\$789,771,487</u>	<u>100.0%</u>

The Town completed a full revaluation of all the property in the Town for use in fiscal 2008.

## 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>
2009	\$12.17	\$14.09
2008	11.76	13.27
2007	12.26	13.51
2006	13.39	13.11
2005	14.12	12.81

## **LARGEST TAXPAYERS (1)**

The following is a list of the ten largest taxpayers for fiscal year 2009:

<b><u>Name</u></b>	<b><u>Nature of Business</u></b>	<b><u>Assessed Valuation</u></b>	<b><u>Amount of Tax</u></b>	<b><u>% of Total Levy</u></b>
Prime Outlets at Lee	Outlet Village	\$ 39,618,400	\$ 482,156	4.46%
Silverleaf Resort & Timeshare	Resort	21,073,360	256,463	2.37
Western Massachusetts Electric Co.	Utility	16,401,480	199,606	1.85
Schweitzer-Mauduit Int., Inc.	Paper Manufacturer	13,182,620	160,410	1.48
HCRI Mass Properties (Laurel Lake)	Geriatric Facility	11,824,200	156,466	1.45
Mead Corp.	Paper Manufacturer	10,683,000	130,012	1.20
Highlawn Realty LLC	Farm	7,413,520	90,223	0.83
The Ponds Assoc.	Timeshare Resort	4,990,860	60,739	0.56
Level #3	Telecommunications	4,840,500	58,909	0.54
Tennessee Tenneco.	Utility - Pipeline	4,694,800	57,136	0.53
Total		<u>\$134,722,740</u>	<u>\$1,652,120</u>	<u>15.27%</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" below. As to the inclusion of debt service and final judgments, see Security and Remedies above.

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" below) 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" below).

**Taxation to Meet Deficits.** As noted elsewhere (see "Abatements and Overlay" below) 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.

In the opinion of Bond Counsel, 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 580 of the Acts of 1980, which was proposed by an initiative petition known as "Proposition 2½", was adopted at the November 4, 1980 general election and took effect on December 4, 1980. The law is subject to amendment or repeal by the legislature. The legislation (as subsequently amended) 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.

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 increase amount in such subsequent year to the stabilization fund.

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" levy 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 vote 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".

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 or 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.

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.

**The Town has voted to exempt the debt service on \$13,280,000 of previously issued bonds from the limitations of Proposition 2½.**

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, the statute 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 the statute 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 regulation 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" below).

**Initiative Petitions.** Various 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:

	(000 omitted) For Fiscal Year				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross Amount to be Raised:					
Appropriations	\$20,692	\$19,670	\$17,487	\$16,747	\$16,659
Other Local Expenditures	742	675	684	709	680
State & County Charges	462	489	491	431	381
Overlay Reserve	226	201	201	193	198
Total Gross Amount to be Raised	<u>\$22,122</u>	<u>\$21,035</u>	<u>\$18,863</u>	<u>\$18,080</u>	<u>\$17,918</u>
Less Estimated Receipts & Other Revenue:					
Estimated Receipts – State	\$ 4,336	\$ 4,057	\$ 3,858	\$ 3,667	\$ 3,558
Estimated Receipts – Local	4,913	4,922	3,438	2,766	3,038
Available Funds Appropriated:					
Free Cash	1,043	834	732	847	617
Other Available Funds	1,014	1,032	1,153	1,409	1,529
Free Cash & Other Revenue					
Used to Reduce Tax Rate	0	0	0	0	0
Total Estimated Receipts & Revenue	<u>11,306</u>	<u>10,845</u>	<u>9,180</u>	<u>8,689</u>	<u>8,742</u>
Net Amount To Be Raised (Tax Levy)	<u>\$10,816</u>	<u>\$10,190</u>	<u>\$ 9,683</u>	<u>\$ 9,391</u>	<u>\$ 9,176</u>

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

	(000 omitted) For Fiscal Year				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Primary Levy Limit (1)	\$22,218	\$21,663	\$19,744	\$17,534	\$16,246
Prior Fiscal Year Levy Limit	\$10,493*	\$ 9,877	\$ 9,373	\$ 8,852*	\$ 8,452*
2.5% Levy Growth	262	247	234	221	212
New Growth (2)	291	336	269	294	99
Overrides	0	0	0	0	0
Growth Levy Limit	\$11,046	\$10,459	\$ 9,877	\$ 9,367	\$ 8,763
Debt Exclusions	605	593	601	475	714
Other Adjustments	0	0	0	0	0
Tax Levy Limit	11,651	11,052	10,478	\$ 9,842	\$ 9,477
Tax Levy	<u>10,816</u>	<u>10,190</u>	<u>9,683</u>	<u>\$ 9,391</u>	<u>\$ 9,176</u>
Unused Levy Capacity (3)	\$ 835	\$ 862	\$ 795	\$ 451	\$ 301
Unused Primary Levy Capacity (4)	<u>\$11,172</u>	<u>\$11,203</u>	<u>\$ 9,868</u>	<u>\$ 8,166</u>	<u>\$ 7,484</u>

(1) 2.5% of assessed valuation.

(2) Allowed increase for new valuations - certified by the Department of Revenue.

(3) Tax Levy Limit less Tax Levy.

(4) Primary Levy limit less Growth Levy Limit.

\* Recalculated.



## **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 each of the most recent fiscal years.

	<b>For Fiscal Year</b>				
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Total Tax Levy	\$10,815,783	\$10,190,042	\$9,682,598	\$9,391,059	\$9,175,977
Overlay Reserve for Abatements	<u>225,662</u>	<u>201,072</u>	<u>200,776</u>	<u>193,122</u>	<u>197,571</u>
Net Tax Levy (1)	<u>\$10,591,121</u>	<u>\$ 9,988,970</u>	<u>\$9,481,822</u>	<u>\$9,197,937</u>	<u>\$8,978,406</u>
Amount Collected During					
Fiscal Year Payable (2)	NA	\$9,614,899	\$9,356,492	\$9,247,533	\$8,834,110
Percent of Net Tax Levy	NA	96.3%	98.7%	99.7%	98.4%
Amount Collected thru 12/31/08 (2)	\$5,254,371	\$9,847,782	\$9,532,718	\$9,353,040	\$9,189,679
Percent of Net Tax Levy	49.6%	98.6%	100.5%	101.7%	102.3%

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

(2) Actual collections of levy less refunds, amounts refundable and abatements and other credits. Fiscal 2008 tax bills were not issued until January 11, 2008.

**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 each of the most recent fiscal years:

	<b>For Fiscal Year</b>				
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Tax Levy	\$10,815,783	\$10,190,042	\$9,682,598	\$9,391,059	\$9,175,977
Overlay Reserve for Abatements	\$225,662	\$201,072	\$200,776	\$193,122	\$197,571
Percent of Tax Levy	2.1%	2.0%	2.1%	2.1%	2.2%
Abatements Granted:					
During Fiscal Year of Levy	NA	\$ 141,710	\$ 146,458	\$ 104,975	\$ 136,667
Through 12/31/08	\$ 80,431	\$ 144,841	\$ 156,841	\$ 129,100	\$ 149,329

**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.

## **TAXES OUTSTANDING**

The following shows taxes outstanding at the end of the last five fiscal years:

	<b>For Fiscal Year</b>				
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Aggregate (1)	\$332,844	\$293,079	\$196,711	\$334,450	\$203,477
For Current Year (1)	317,207	270,051	188,222	325,328	192,531
Tax Titles & Possessions	122,261	104,278	120,399	128,621	111,698

(1) Excludes tax titles, tax possessions and abated taxes. Includes taxes in litigation, if any.

## **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 2004, the Town's net spending exceeded the minimum required local contribution and is expected to do so in fiscal 2005.

Under recent legislation, the board of selectmen of a town with the concurrence of the finance committee may transfer within the last two months of fiscal years 2004 and 2005 any amount appropriated for the use of any department to the appropriation for any other department, provided that no such transfer may be made from any appropriation for a school department, regional school district, or municipal light department.

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 above.)

## **BUDGET COMPARISON**

The following table sets forth the budgets for fiscal years 2005-2009.

	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
General Government	\$ 3,593,169	\$ 3,486,266	\$ 3,288,007	\$ 3,016,698	\$ 2,556,110
Public Safety	1,375,435	1,214,215	1,157,648	1,102,194	1,087,363
Education	7,649,158	7,100,756	6,761,087	6,627,625	6,478,617
Public Works	883,924	817,795	753,577	687,155	667,701
Human Services	163,187	162,173	156,120	154,699	140,562
Culture & Recreation	288,228	247,133	235,161	220,086	214,995
Debt Service	<u>1,226,697</u>	<u>1,287,183</u>	<u>1,304,431</u>	<u>1,330,561</u>	<u>1,722,410</u>
Total	<b><u>\$15,179,798</u></b>	<b><u>\$14,315,521</u></b>	<b><u>\$13,656,031</u></b>	<b><u>\$13,139,018</u></b>	<b><u>\$12,867,758</u></b>

## **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 provides financial assistance to cities and towns for current purposes. Payments to cities and towns are 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. A municipality's state aid entitlement is based on a number of different 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, but the actual state aid payments may vary from the estimate.

In 1993, the Massachusetts Supreme Judicial Court found that the State has an enforceable constitutional obligation to provide an adequate public education and that, at that time, the State was not fulfilling its obligation. Promptly, thereafter, the state legislature adopted the Education Reform Act of 1993, which, among other things, increased funding levels and changed allocation formulas for state school aid. In 1999, the litigation was reinstituted by a number of municipalities challenging the adequacy of the public education being provided by the State and seeking, among other things, additional state aid for their schools. Pursuant to a fact finding trial, the Superior Court issued a report to the Supreme Judicial Court which, among other things, concluded that the State is not satisfying its constitutional obligation with respect to certain municipal school systems and recommended that the Court order the State to provide funding necessary to pay for an adequate education in such municipalities. On February 15, 2005, the Supreme Judicial Court in effect held that the State was currently meeting its constitutional obligation.

In the fall of 1986, both the State Legislature (by statute, repealed as of July, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited 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, the remaining measure could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities were allowed to defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities that chose to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule. The Town chose not to accept the teacher deferral.

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>
2009 (budgeted)	\$3,725,660
2008 (unaudited)	3,446,780
2007	3,228,327
2006	2,927,761
2005	3,557,753

### **STATE SCHOOL BUILDING ASSISTANCE PROGRAM**

Under its school building assistance program, the Commonwealth of Massachusetts provides grants to cities and 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. Approved project costs included the interest expense incurred on debt issued by a municipality to finance the school project. In recent years, demand for school building assistance grants far exceeded available funds. As of July 1, 2004, a total of 425 projects for which completed grant applications had been submitted were still on the Department of Education's project priority list awaiting approval of a grant.

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 the Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. It is expected that the Authority will continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects.

Projects on the priority waiting list, as of July 1, 2004, are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. The Authority expects to pay grants for all of the projects on the priority waiting list by the end of fiscal year 2008. Grants for such projects are expected to be paid in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expense that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, shall be included in the approved costs of such projects.

Grant applications for new projects may not be submitted to the Authority until July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. Prior to that date, the Authority is required to engage in a comprehensive review of the school building assistance program, to recommend legislative changes, to adopt new maximum eligible cost and size standards, and to promulgate new regulations. The Authority expects to pay grants for such projects in lump sum payments as project costs are incurred. None of the interest expense incurred on debt issued by municipalities to finance new projects will be included in the approved project costs eligible for reimbursement.

### **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.

<b><u>Fiscal Year</u></b>	<b><u>Receipts (1)</u></b>
2009 (budgeted)	\$625,000
2008 (unaudited)	671,293
2007	646,493
2006	692,769
2005	681,172

(1) Net after refunds. Includes receipts for prior years.

## **COMMUNITY PRESERVATION ACT**

The Massachusetts Community Preservation Act (the "CPA") permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. 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% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including 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, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2 ½ (see "Tax Limitations" under "PROPERTY TAX" above). 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, 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 on the real property tax levy. 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 which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes 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 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 not accepted this legislation.

### **OTHER TAXES**

Two additional sources of revenue for local governments are the room occupancy excise tax and the aviation fuel tax. Both 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 four 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 Town has voted to impose the room occupancy excise tax.

The following table shows the actual receipts of the room occupancy tax for the most recent fiscal years and budgeted for fiscal 2009

<b><u>Fiscal Year</u></b>	<b><u>Balance</u></b>
2009 (budgeted)	\$155,000
2008 (unaudited)	171,654
2007	168,178
2006	172,359
2005	176,597

### **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.

### **UNDESIGNATED 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 undesignated general fund balance and certified free cash for the most recent fiscal years:

<u>July 1,</u>	<u>Undesignated General Fund Balance</u>	<u>Free Cash</u>
2008	\$2,255,234	\$1,871,002
2007	2,435,395	2,091,064
2006	2,235,649	1,603,148
2005	2,023,624	1,326,419
2004	2,218,398	1,645,769

### **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 following is the balance in the account at the end of the most recent fiscal years:

<u>Fiscal Year</u>	<u>Balance</u>
2008 (unaudited)	\$1,513,882
2007	1,460,690
2006	1,391,399
2005	1,592,535
2004	1,455,865

For fiscal year 2009, the Town has not appropriated any funds from the Stabilization Fund for capital improvements in the Town.

### **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 460 employees of which approximately 40 percent belong to unions or other collective bargaining groups as follows:

<b><u>Union</u></b>	<b><u>Department</u></b>	<b><u>Number of People</u></b>	<b><u>Contract Expiration</u></b>
Teamsters	DPW	8	6/30/2009
Teamsters	Police	10	6/30/2009
Lee Education Association/MTA	School	90	6/30/2010
Teamsters	Dispatchers	4	6/30/2009
Lee Administrators Association	School	5	6/30/2010
Cafeteria Workers	School	12	6/30/2010
Paraprofessionals/MTA	School	37	6/30/2010
Lee Secretaries, Clerks, Typist Association	School	6	6/30/2010
Custodians	School	8	6/30/2010
		<u>181</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 large employers, other than the Town itself, located in the Town:

<b><u>Company</u></b>	<b><u>Nature of Business</u></b>	<b><u>Approximate number of Employees</u></b>
Prime Outlets of Lee	Retail	450
Country Curtains	Retail	400
Village at Laurel Lake	Nursing Home Facility	170
Oak'n Spruce Resort	Resort	100
Ray Murray, Inc.	Retrofitting	100
Boyd Converting	Manufacturing	78
Price Chopper	Grocery Store	77
Lee Bank	Bank	50

Source: The Town, February 2009.

## **Employment by Industry**

	<b><u>Calendar Year Average</u></b>				
	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Construction & Natural Resources	365	287	288	243	221
Manufacturing	535	621	764	762	741
Trade, Transportation & Utilities	1,129	1,088	997	958	953
Financial Activities	202	204	198	183	189
Professional & Business Services	201	231	190	179	177
Education & Health Services	374	266	254	263	259
Leisure & Hospitality	587	614	640	596	616
Information & Other Services	174	172	183	155	158
Total Employment	3,897	3,898	3,955	3,790	3,736
Number of Establishments	350	352	342	335	319
Total Annual Wage (000)	\$145,680	\$140,305	\$141,043	\$133,697	\$129,532
Average Weekly Wage	\$719	\$692	\$686	\$678	\$667

## **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.

<b><u>Calendar Year</u></b>	<b><u>Number</u></b>	<b><u>Estimated Value</u></b>
2008	348	\$27,189,407
2007	338	15,125,382
2006	377	19,837,155
2005	322	14,962,426
2004	373	16,053,305

## **OTHER DATA**

### **Unemployment (1)**

<b><u>Year</u></b>	<b><u>Lee</u></b>	<b><u>Massachusetts</u></b>	<b><u>United States</u></b>
2008 (October)	4.8%	5.0%	6.1%
2007	4.0	4.5	4.6
2006	4.3	5.0	4.6
2005	3.4	4.8	5.1
2004	4.2	5.2	5.5

(1) *Massachusetts Department of Employment and Training. Full year annual averages except for 2008 which is for the month indicated.*

### **Population (1)**

<b><u>Year</u></b>	<b><u>Lee</u></b>		<b><u>Berkshire County</u></b>		<b><u>Massachusetts</u></b>	
	<b><u>Number</u></b>	<b><u>% Change</u></b>	<b><u>Number</u></b>	<b><u>% Change</u></b>	<b><u>Number</u></b>	<b><u>% Change</u></b>
2020 (Proj.)	5,414	(5.3)%	118,452	(6.2)%	6,767,712	3.2%
2010 (Proj.)	5,714	(1.5)	126,255	(2.7)	6,557,001	1.7
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	(2.8)	145,110	(2.9)	5,737,037	0.8
1970	6,426		149,402		5,689,170	

(1) *Source: U.S. Department of Commerce for actuals, Massachusetts Institute for Social & Economic Research (MISER) for projections. The MISER projections do not reflect the actual 2000 census figures for the Town. The most current MISER projections, which are presented here for years 2005 and 2010, project a year 2000 population of 5,346 for the Town. Thus, it is believed that the projected figures for years 2005 and 2010 appreciable understate what the population is likely to be.*

### **Population Density (1)**

<b><u>Year</u></b>	<b><u>Lee</u></b>		<b><u>Berkshire County</u></b>		<b><u>Massachusetts</u></b>	
	<b><u>Number</u></b>	<b><u>Density (2)</u></b>	<b><u>Number</u></b>	<b><u>Density</u></b>	<b><u>Number</u></b>	<b><u>Density</u></b>
2020 (Proj.)	5,414	204.1	118,452	127.2	6,767,712	863.5
2010 (Proj.)	5,714	216.4	126,255	135.6	6,557,001	836.6
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
1970	6,426	243.4	149,402	160.4	5,689,170	725.8

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

(2) *Based on 26.4 square miles.*

### Population Composition 2000 (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	302	5.0%	6,964	5.2%	397,268	6.8%
5 Years to 19 Years	1,158	19.3	27,195	20.2	1,277,845	15.6
20 Years to 64 Years	3,522	58.8	76,571	56.7	3,813,822	63.9
65 Years & Over	<u>1,003</u>	<u>16.8</u>	<u>24,223</u>	<u>17.9</u>	<u>860,162</u>	<u>13.7</u>
Total	<u>5,985</u>	<u>100.0%</u>	<u>134,953</u>	<u>100.0%</u>	<u>6,349,097</u>	<u>100.0%</u>
Median Age	40.4		40.5		36.5	
Median Age (1990)	36.1		35.9		33.6	

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

### Income Levels (1)

<u>Year</u>	<u>Lee</u>		<u>Berkshire County</u>		<u>Massachusetts</u>	
	<u>Amount</u>	<u>% Change from Previous Census</u>	<u>Amount</u>	<u>% Change from Previous Census</u>	<u>Amount</u>	<u>% Change from Previous Census</u>
Per capital personal income						
1999	\$19,799	29.5%	\$21,207	46.8%	\$25,952	50.7%
1989	15,289	122.5	14,857	117.1	17,224	131.0
1979	6,870		6,842		7,457	
Median Family Income (1999)	\$49,630		\$50,162		\$61,664	
Median Household Income (1999)	\$41,556		\$39,047		\$50,502	
% Below Poverty Level (1999)	6.7%		9.5%		9.3%	

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

### Family Income Distribution 1999 (1)

<u>Income for Families</u>	<u>Lee</u>		<u>Berkshire County</u>		<u>Massachusetts</u>	
	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>
Less than \$10,000	41	2.5%	1,460	4.1%	71,198	4.5%
\$10,000 - \$24,999	164	10.2	4,983	14.1	175,120	11.0
\$25,000 - \$49,999	603	37.5	11,091	31.5	368,418	23.2
\$50,000 - \$74,999	416	25.9	8,876	25.2	359,202	22.6
\$75,000 - \$99,999	199	12.4	4,244	12.0	251,231	15.8
\$100,000 - \$149,999	166	10.3	2,942	8.4	222,234	14.0
\$150,000 or more	<u>19</u>	<u>1.2</u>	<u>1,629</u>	<u>4.6</u>	<u>140,134</u>	<u>8.8</u>
Total	<u>1,608</u>	<u>100.0%</u>	<u>35,225</u>	<u>100.0%</u>	<u>1,587,537</u>	<u>100.0%</u>

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

### Household Income Distribution 1999 (1)

<u>Income for Households</u>	<u>Lee</u>		<u>Berkshire County</u>		<u>Massachusetts</u>	
	<u>Households</u>	<u>Percent</u>	<u>Households</u>	<u>Percent</u>	<u>Households</u>	<u>Percent</u>
Less than \$10,000	221	9.1%	5,523	9.9%	214,700	8.8%
\$10,000 - \$24,999	465	19.1	12,174	21.8	385,395	15.8
\$25,000 - \$49,999	783	32.1	16,761	30.0	608,320	24.9
\$50,000 - \$74,999	520	21.3	10,947	19.6	490,998	20.1
\$75,000 - \$99,999	231	9.5	5,042	9.0	312,741	12.8
\$100,000 - \$149,999	190	7.8	3,494	6.3	267,300	10.9
\$150,000 or more	26	1.1	1,933	3.5	165,134	6.8
Total	<u>2,436</u>	<u>100.0%</u>	<u>55,874</u>	<u>100.0%</u>	<u>2,444,588</u>	<u>100.0%</u>

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

### Value Distribution Of Specified Owner-Occupied Housing Units 2000 (1)

<u>Units</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>
Less than \$100,000	282	19.2%	10,975	37.7%	113,263	9.5%
\$100,000 - \$149,999	710	48.5	9,372	32.2	277,571	23.4
\$150,000 - \$199,999	277	18.9	4,213	14.5	273,542	23.0
\$200,000 - \$299,999	152	10.4	2,987	10.3	286,599	24.1
\$300,000 - \$499,999	44	3.0	1,223	4.2	170,536	14.4
\$500,000 or more	0	0.0	357	1.2	66,360	5.6
Total	<u>1,465</u>	<u>100.0%</u>	<u>29,127</u>	<u>100.0%</u>	<u>1,187,871</u>	<u>100.0%</u>
Median Value	\$131,300		\$116,800		\$185,700	

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

### Age Distribution of Housing Units 2000 (1)

<u>Year Built</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>
1990 to March 2000	185	6.3%	3,919	5.9%	218,407	8.3%
1980 to 1989	498	17.0	6,617	10.0	292,701	11.2
1940 to 1979	1,252	42.8	28,924	43.6	1,205,183	46.0
1939 or Earlier	992	33.9	26,841	40.5	905,698	34.5
Total	<u>2,927</u>	<u>100.0%</u>	<u>66,301</u>	<u>100.0%</u>	<u>2,621,989</u>	<u>100.0%</u>

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

## Housing Unit Inventory 2000 (1)

<u>Units in Structure</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>
1, Detached	1,779	60.8%	41,315	62.3%	1,374,479	52.4%
1, Attached	34	1.2	1,328	2.0	104,129	4.0
2 to 4	710	24.3	14,528	21.9	603,917	23.0
5 to 9	125	4.3	3,161	4.8	156,135	6.0
10 to 49	120	4.1	1,625	2.5	113,697	4.3
50 or More	101	3.5	2,605	3.9	244,892	9.3
Mobil Home, Trailer, or Other	58	2.0	1,739	2.6	24,740	0.9
Total	<u>2,927</u>	<u>100.0%</u>	<u>66,301</u>	<u>100.0%</u>	<u>2,621,989</u>	<u>100.0%</u>

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

## Educational Attainment 2000 (1)

<u>Years of School Completed</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>
Less than 9th Grade	121	2.9%	4,319	4.6%	247,556	5.8%
9th to 12th Grade	348	8.3	9,632	10.3	403,537	9.4
High School Graduate	1,433	34.3	31,855	34.1	1,165,489	27.3
Some College, No Degree	875	20.9	16,678	17.9	730,135	17.1
Associate's Degree	365	8.7	6,629	7.1	308,263	7.2
Bachelor's Degree	702	16.8	13,964	15.0	834,554	19.5
Graduate or Professional Degree	339	8.1	10,262	11.0	583,741	13.7
Total	<u>4,183</u>	<u>100.0%</u>	<u>93,339</u>	<u>100.0%</u>	<u>4,273,275</u>	<u>100.0%</u>
High School Graduate or Higher	3,714	88.8%	79,388	85.1%	3,622,182	84.8%
Bachelor's Degree or Higher	1,041	24.9	24,226	26.0	1,418,295	33.2

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

## Public School Enrollments (1)

	<u>Actual</u>					<u>Projected</u>
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Pre School-K	74	70	75	69	69	69
Grades 1-4	213	212	210	209	201	194
Grades 5-6	114	113	112	124	117	117
Grades 7-8	151	155	132	140	140	131
Grades 9-12	353	336	359	362	343	321
Ungraded	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>0</u>	<u>0</u>
Total	<u>907</u>	<u>888</u>	<u>890</u>	<u>906</u>	<u>870</u>	<u>832</u>

(1) As of October 1, each year.

The Town believes the capacity of the school system will be sufficient for its needs for the foreseeable future.

## **LITIGATION**

At present there are no suits pending in which the Town is a defendant.

**TOWN OF LEE  
Massachusetts**

By: /s/ Susan E. Kelley  
Treasurer

Dated: March 15, 2009

## ***APPENDIX A***

The following Balance Sheet for June 30, 2008 has been taken from the unaudited financials of the Town.

The following Balance Sheets for June 30, 2003 through 2007 and the Combined Statement of Revenues, Expenditures and Changes in Fund Balance for fiscal years ending June 30, 2003, through 2007 have been taken from the audited financials of the Town.

There follows in Appendix B the draft audited financial statements for the Town for fiscal year ended June 30, 2007.



**TOWN OF LEE  
MASSACHUSETTS  
BALANCE SHEET  
GENERAL FUND  
June 30, 2008  
Unaudited**

**ASSETS**

Cash and cash equivalents	\$4,227,216
Receivables:	
Property taxes minus overlay	(32,789)
Excise	83,314
Tax Liens and foreclosures	122,262
User charges	4,470
Deferred taxes	9,124
Other Assets	4,393
Total Assets	<u>\$4,417,990</u>

**LIABILITIES AND FUND EQUITY**

**Liabilities:**

Warrants Payable	123,382
Payroll Withholding	87,359
Deferred Revenue	186,304
Other Liabilities	18,854
Total Liabilities	<u>415,899</u>

**Fund Equity:**

Reserved for Expenditures	859,978
Reserved for Encumbrances	811,750
Reserved for Other Specific Purposes	75,128
Unreserved Undesignated	2,255,234
Total Fund Equity	<u>\$4,002,091</u>
Total Liabilities and Fund Equity	<u>\$4,417,990</u>

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

<b><u>ASSETS</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Cash and Cash Equivalents	\$4,167,090	\$4,063,479	\$3,479,015	\$3,531,750
Receivables:				
Property Taxes and Excises	464,639	380,608	561,578	384,153
Departmental and other	3,701	0	5,179	5,179
Due From Other Governments	81,450	77,425	121,200	0
Other Assets	<u>0</u>	<u>3,085</u>	<u>3,137</u>	<u>2,674</u>
Total Assets	<u>\$4,716,880</u>	<u>\$4,524,597</u>	<u>\$4,170,109</u>	<u>\$3,923,756</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
Liabilities:				
Warrants Payable	\$ 113,971	\$ 192,877	\$ 335,544	\$ 77,929
Payroll Withholding	68,458	69,872	27,442	70,295
Deferred Revenue	352,257	316,516	364,047	332,653
Reserve for Tax Refunds	0	50,034	0	0
Other Liabilities	<u>13,854</u>	<u>13,855</u>	<u>13,571</u>	<u>13,571</u>
Total Liabilities	<u>\$ 548,540</u>	<u>\$ 643,154</u>	<u>\$ 740,604</u>	<u>\$ 494,448</u>
Fund Equity:				
Reserved for Expenditures	\$ 797,942	\$ 600,878	\$ 785,920	\$ 590,850
Reserved for Encumbrances	656,361	949,904	513,238	553,460
Reserved for Other Specific Purposes	84,808	95,012	106,723	66,600
Unreserved Undesignated	<u>2,629,229</u>	<u>2,235,649</u>	<u>2,023,624</u>	<u>2,218,398</u>
Total Fund Equity	<u>4,168,340</u>	<u>3,881,443</u>	<u>3,429,505</u>	<u>3,429,308</u>
Total Liabilities and Fund Equity	<u>\$4,716,880</u>	<u>\$4,524,597</u>	<u>\$4,170,109</u>	<u>\$3,923,756</u>

(1) As audited by Melanson Heath & Company, P.C. of Greenfield, Massachusetts.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Revenues:</b>					
Penalties, Interest and Other Taxes	\$ 103,014	\$ 253,080	\$ 269,681	\$ 252,495	\$ 284,960
Property Taxes	9,550,630	9,325,296	9,815,547	9,739,168	9,195,621
Licenses and Permits	22,248	152,206	187,870	107,960	97,564
Fines and Forfeits	42,777	5,455	7,295	9,095	11,009
Intergovernmental	4,866,394	4,400,233	4,081,790	3,857,632	3,517,091
Charges for Services	642,365	494,812	456,025	533,267	571,051
Interest on Investments	454,657	313,756	204,344	239,839	543,070
Taxes and Excises	807,233	682,003	0	0	0
Sale of Assets	26,600	95,582	0	0	0
Miscellaneous	82,842	38,182	34,334	21,235	50,621
Total Revenues	<u>\$16,598,760</u>	<u>\$15,760,605</u>	<u>\$15,056,886</u>	<u>\$14,507,926</u>	<u>\$14,270,987</u>
<b>Expenditures:</b>					
General Government	\$ 756,874	\$ 691,885	\$ 633,705	\$ 627,490	\$ 654,206
Public Safety	1,281,247	1,199,409	1,083,195	1,235,126	1,096,189
Education	8,363,711	7,952,734	7,546,192	7,214,605	7,316,845
Public Works	1,118,264	1,028,135	1,038,562	742,608	644,056
Human Services	144,814	146,950	140,063	133,509	126,040
Culture and Recreation	271,315	237,861	241,914	221,731	228,310
Debt Service	1,303,306	1,320,174	1,368,499	1,589,438	930,734
Intergovernmental	491,608	481,004	437,452	384,234	439,640
Employee Benefits	2,457,636	2,282,167	1,928,404	1,735,657	1,522,067
Miscellaneous	145,961	121,695	101,004	97,704	97,236
Total Expenditures	<u>\$16,334,736</u>	<u>\$15,462,014</u>	<u>\$14,518,990</u>	<u>\$13,982,102</u>	<u>\$13,055,323</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>264,024</u>	<u>298,591</u>	<u>537,896</u>	<u>525,824</u>	<u>1,215,664</u>
<b>Other Financing Sources (Uses):</b>					
Operating Transfers In	108,486	317,025	14,410	385,796	327,368
Operating Transfers Out	<u>(85,614)</u>	<u>(163,677)</u>	<u>(552,109)</u>	<u>(725,670)</u>	<u>(347,647)</u>
Total Other Financing Sources (Uses)	<u>\$ 22,872</u>	<u>\$ 153,348</u>	<u>\$ (537,699)</u>	<u>\$ (339,874)</u>	<u>\$ (20,279)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	286,896	451,939	197	185,950	1,195,385
Fund Equity, Beginning	<u>\$3,881,444</u>	<u>\$3,429,504</u>	<u>\$3,429,308</u>	<u>\$3,243,358</u>	<u>\$2,047,973</u>
Fund Equity, Ending	<u>\$4,168,340</u>	<u>\$3,881,443</u>	<u>\$3,429,505</u>	<u>\$3,429,308</u>	<u>\$3,243,358</u>

(1) As audited by Melanson, Heath & Company, P.C. of Greenfield, Massachusetts. The fiscal 2006 figures are draft audit results.

## ***APPENDIX B***

There follows in this Appendix B a copy of the June 30, 2007, audit prepared by Melanson, Heath & Company, P.C., Greenfield, Massachusetts. Copies of prior year audits are available on request.

**TOWN OF LEE, MASSACHUSETTS**  
**Annual Financial Statements**  
**For the Year Ended June 30, 2007**

## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	11
Statement of Activities	12
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	17
<b>Proprietary Funds:</b>	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
<b>Notes to Financial Statements</b>	<b>23</b>
<b>SUPPLEMENTARY INFORMATION</b>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	39



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

51 Davis Street • Suite 1  
Greenfield, MA 01301-2422  
Tel (413)773-5405 • Fax (413)773-7304  
[www.melansonheath.com](http://www.melansonheath.com)

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Lee, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the 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, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Lee's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund

*Additional Offices:*

Nashua, NH • Ellsworth, ME • Andover, MA

information of the Town of Lee, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 2008 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Melanson Heath & Company, P.C.*

Greenfield, Massachusetts  
September 16, 2008



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Lee, we offer readers this narrative overview and analysis of the financial activities of the Town of Lee for the fiscal year ended June 30, 2007.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Lee's basic financial statements. The basic 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 our finances in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions 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 (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, employee benefits, interest, intergovernmental and miscellaneous. The business-type activities include water and sewer activities.

**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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be

divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**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. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

**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 accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary

information which is required to be disclosed by the *Governmental Accounting Standards Board*.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 36,923,825 (i.e., net assets), an increase of \$ 428,791 in comparison with the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance surplus of \$ 7,303,595, a decrease of \$ (68,934) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 2,629,229, an increase of \$ 393,580 in comparison with the prior year.
- Total long-term debt (i.e., bonds and long-term notes payable) at the close of the current fiscal year was \$ 40,939,992, an increase of \$ 20,478,689 in comparison with the prior year.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following is a summary of condensed government-wide financial data for the current and prior fiscal years (in thousands).

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006 (restated)</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006 (restated)</u>
Current and other assets	\$ 7,920	\$ 8,030	\$ 15,504	\$ 4,647	\$ 23,424	\$ 12,677
Capital assets	<u>27,181</u>	<u>28,072</u>	<u>29,264</u>	<u>16,942</u>	<u>56,445</u>	<u>45,014</u>
Total assets	35,101	36,102	44,768	21,589	79,869	57,691
Long-term liabilities outstanding	13,410	14,170	25,727	5,342	39,137	19,512
Other liabilities	<u>1,152</u>	<u>1,285</u>	<u>2,655</u>	<u>398</u>	<u>3,807</u>	<u>1,683</u>
Total liabilities	14,562	15,455	28,382	5,740	42,944	21,195
Net assets:						
Invested in capital assets, net	13,359	13,541	12,182	11,545	25,541	25,086
Restricted	1,447	1,974	-	-	1,447	1,974
Unrestricted	<u>5,733</u>	<u>5,132</u>	<u>4,204</u>	<u>4,304</u>	<u>9,937</u>	<u>9,436</u>
Total net assets	<u>\$ 20,539</u>	<u>\$ 20,647</u>	<u>\$ 16,386</u>	<u>\$ 15,849</u>	<u>\$ 36,925</u>	<u>\$ 36,496</u>

# CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,387	\$ 2,210	\$ 3,014	\$ 2,542	\$ 5,401	\$ 4,752
Operating grants and contributions	4,844	4,628	-	-	4,844	4,628
Capital grants and contributions	-	49	-	-	-	49
General revenues:						
Property taxes	9,597	9,302	-	-	9,597	9,302
Excises	815	690	-	-	815	690
Penalties and interest on taxes	103	253	-	-	103	253
Grants and contributions not restricted to specific programs	942	785	-	-	942	785
Investment income	534	383	-	-	534	383
Other	48	255	-	-	48	255
Total revenues	<u>19,270</u>	<u>18,555</u>	<u>3,014</u>	<u>2,542</u>	<u>22,284</u>	<u>21,097</u>
Expenses:						
General government	814	866	-	-	814	866
Public safety	1,877	1,774	-	-	1,877	1,774
Education	11,380	10,732	-	-	11,380	10,732
Public works	1,149	1,100	-	-	1,149	1,100
Health and human services	192	195	-	-	192	195
Culture and recreation	284	282	-	-	284	282
Employee benefits	2,458	2,282	-	-	2,458	2,282
Interest on long-term debt	590	613	470	-	1,060	613
Intergovernmental	492	481	-	-	492	481
Miscellaneous	145	121	-	-	145	121
Water operations	-	-	1,250	1,386	1,250	1,386
Sewer operations	-	-	757	706	757	706
Total expenses	<u>19,381</u>	<u>18,446</u>	<u>2,477</u>	<u>2,092</u>	<u>21,858</u>	<u>20,538</u>
Change in net assets before transfer in	(111)	109	537	450	426	559
Transfer in from Agency Fund	3	-	-	-	3	-
Change in net assets	(108)	109	537	450	429	559
Net assets - beginning of year (as restated)	<u>20,647</u>	<u>20,538</u>	<u>15,849</u>	<u>15,399</u>	<u>36,496</u>	<u>35,937</u>
Net assets - end of year	<u>\$ 20,539</u>	<u>\$ 20,647</u>	<u>\$ 16,386</u>	<u>\$ 15,849</u>	<u>\$ 36,925</u>	<u>\$ 36,496</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 36,923,825, an increase of \$ 428,791 from the prior year.

The largest portion of net assets, \$ 25,541,313, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of 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.

An additional portion of net assets, \$ 1,446,137 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 9,936,375, may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a decrease in net assets of \$ (108,011). Key elements of this increase are as follows:

- Fund basis excess of expenditures and other uses over revenues and other sources of \$ (68,934), which is further discussed in the governmental funds section.
- Depreciation expense (not budgeted for) in excess of principal debt expense (included in budget) of \$ (479,301).
- Capital additions, net of disposals, of \$ 342,307 were budgeted as expenses in general fund. On the government-wide basis, this results in revenue being generated in excess of expenditures, since the "expenses" are actually being added to capital assets.
- Other revenue and expense accruals of \$ 97,917.

**Business-Type Activities.** Business-type activities for the year resulted in an increase in net assets of \$ 536,802. Key elements of this change are as follows:

- Water operations decrease of \$ (340,083), resulting from:
  - Revenues in excess of budget by \$ 293,332.
  - Use of surplus anticipated in budget \$ (193,350).
  - Expenditures (on a budgetary basis) under amounts appropriated of \$ 50,389.
  - Net difference in encumbrances (budget carryforwards) between the current and prior years of \$ (7,133).
  - Depreciation expense (not budgeted) in excess of principal debt expenditures (included in budget) of \$ (359,937).
  - Other revenue/expenditure accruals of \$ (123,384).
- Sewer operations increase of \$ 876,885, resulting from:
  - Revenues in excess of budget by \$ 776,154.
  - Use of surplus anticipated in budget of \$ (64,750).
  - Expenditures (on a budgetary basis) under amounts appropriated of \$ 194,559.

- Net difference in encumbrances (budget carryforwards) between the current and prior year of \$ (124,425).
- Depreciation expense (not budgeted for) in excess of principal debt expenditures (included in budget) of \$ (169,747).
- Capital assets funded by operating revenue of \$ 82,662.
- Other revenue/expenditure accruals of \$ 182,432.

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance 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, governmental funds reported combined ending fund balances of \$ 7,303,595, a decrease of \$ (68,934) in comparison with the prior year. This increase was attributable to:

- General fund increase of \$ 286,896 discussed below.
- Expendable trust interest and contributions revenue over expenditures and transfers out of \$ 69,598.
- Special revenue fund expenditures and transfers out in excess of revenues and transfers in of \$ (432,478).
- Permanent non-expendable trust transfers in of \$ 7,050.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 2,629,229, while total fund balance was \$ 4,168,340. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16 percent of total general fund expenditures, while total fund balance represents 26 percent of that same amount.

The fund balance of the general fund increased \$ 286,896 during the current fiscal year. Key factors in this change are as follows:

- Non-property tax revenue in excess of budget of \$ 648,605.
- Property tax revenue in excess of current year budget of \$ 68,808.

- Expenditures against current year budget were less than anticipated by \$ 510,286.
- Use of surplus anticipated in budget of \$ (647,262). Of this amount, \$ (637,058) was from free cash and \$ (10,204) was from premium on debt issued in fiscal year 2006 and reserved for use in future years to defray the related debt expenses.
- Actual expenditures in the current year that were funded by a prior year budget were \$ (949,904). Conversely, current year expenditure carryforwards that will be expended in a subsequent year were approximately \$ 656,363.

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 4,203,553, a decrease of \$ (100,625) in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 36,180, which was to increase the snow and ice appropriation by \$ 14,000, increase police overtime by \$ 20,000, and other appropriations of \$ 2,180. All of the increase was funded by free cash.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 56,444,499 (net of accumulated depreciation), an increase of \$ 11,430,346 from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment and infrastructure for proprietary funds.

Major capital asset events during the current fiscal year included the following:

- Sewer plant construction costs (in process) - \$ 13,024,428.
- Vehicle and equipment purchases of - \$ 102,457.
- Depreciation expense, net of disposals - \$ (1,696,539).

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 40,939,992, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

### **REQUESTS FOR INFORMATION**

This 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:

Mr. Robert Nason  
Town Administrator  
Town of Lee  
P.O. Box 630  
Lee, MA 01238



TOWN OF LEE, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 7,322,915	\$ 4,967,965	\$ 12,290,880
Receivables, net of allowance for uncollectibles:			
Property taxes	289,356	-	289,356
Excises	59,050	-	59,050
User fees	116,567	943,020	1,059,587
Intergovernmental	121,976	9,592,935	9,714,911
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	10,102	-	10,102
Capital assets, land and construction in progress	1,990,313	14,301,996	16,292,309
Capital assets, net of accumulated depreciation	<u>25,190,325</u>	<u>14,961,865</u>	<u>40,152,190</u>
<b>TOTAL ASSETS</b>	<b>35,100,604</b>	<b>44,767,781</b>	<b>79,868,385</b>
<b>LIABILITIES</b>			
Current:			
Warrants and accounts payable	154,525	1,240,946	1,395,471
Accrued payroll and withholdings	74,949	-	74,949
Accrued interest payable	148,926	369,327	518,253
Other current liabilities	13,854	2,041	15,895
Current portion of long-term liabilities:			
Bonds payable	760,000	1,043,227	1,803,227
Noncurrent:			
Bonds payable, net of current portion	<u>13,410,000</u>	<u>25,726,765</u>	<u>39,136,765</u>
<b>TOTAL LIABILITIES</b>	<b>14,562,254</b>	<b>28,382,306</b>	<b>42,944,560</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	13,359,391	12,181,922	25,541,313
Restricted for:			
State and federal grants	1,143,010	-	1,143,010
Permanent funds:			
Nonexpendable	178,870	-	178,870
Expendable	39,449	-	39,449
Other purposes	84,808	-	84,808
Unrestricted	<u>5,732,822</u>	<u>4,203,553</u>	<u>9,936,375</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>20,538,350</u></b>	<b>\$ <u>16,385,475</u></b>	<b>\$ <u>36,923,825</u></b>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for	Operating	Capital	Governmental	Business-	Total
		Services	Grants and	Grants and	Activities	Type	
			Contributions	Contributions		Activities	
		Expenses					
<b>Governmental Activities:</b>							
General government	\$ 814,408	\$ 130,246	\$ 4,747	\$ -	\$ (679,415)	\$ -	\$ (679,415)
Public safety	1,876,909	750,697	126,895	-	(999,317)	-	(999,317)
Education	11,380,373	1,479,162	4,658,529	-	(5,242,682)	-	(5,242,682)
Public works	1,149,133	24,014	19,993	48	(1,105,078)	-	(1,105,078)
Health and human services	192,251	1,342	22,453	-	(168,456)	-	(168,456)
Culture and recreation	283,772	1,425	11,582	-	(270,765)	-	(270,765)
Employee benefits	2,457,636	-	-	-	(2,457,636)	-	(2,457,636)
Interest	589,556	-	-	-	(589,556)	-	(589,556)
Intergovernmental	491,608	-	-	-	(491,608)	-	(491,608)
Miscellaneous	145,961	-	-	-	(145,961)	-	(145,961)
Total Governmental Activities	19,381,607	2,386,886	4,844,199	48	(12,150,474)	-	(12,150,474)
<b>Business-Type Activities:</b>							
Water services	1,485,395	1,145,312	-	-	-	(340,083)	(340,083)
Sewer services	992,058	1,868,943	-	-	-	876,885	876,885
Total Business-Type Activities	2,477,453	3,014,255	-	-	-	536,802	536,802
Total All Activities	\$ 21,859,060	\$ 6,401,141	\$ 4,844,199	\$ 48	(12,150,474)	536,802	(11,613,672)
<b>General Revenues:</b>							
Property taxes					9,597,557	-	9,597,557
Excises					814,973	-	814,973
Penalties, interest and other taxes					103,014	-	103,014
Grants and contributions not restricted to specific programs					941,975	-	941,975
Investment income					533,848	-	533,848
Miscellaneous					47,696	-	47,696
Total general revenues					12,039,063	-	12,039,063
Change in Net Assets before transfer in					(111,411)	536,802	425,391
Transfer from Agency fund					3,400	-	3,400
Change in Net Assets					(108,011)	536,802	428,791
<b>Net Assets:</b>							
Beginning of year (as restated)					20,646,361	15,848,673	36,495,034
End of year					\$ 20,538,350	\$ 16,385,475	\$ 36,923,825

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 4,167,090	\$ 3,155,825	\$ 7,322,915
Receivables:			
Property taxes	404,276	-	404,276
Excises	60,363	-	60,363
Departmental and other	3,701	225,732	229,433
Intergovernmental	81,450	40,526	121,976
<b>TOTAL ASSETS</b>	<b>\$ 4,716,880</b>	<b>\$ 3,422,083</b>	<b>\$ 8,138,963</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ 113,971	\$ 40,554	\$ 154,525
Accrued payroll and withholdings	68,458	6,491	74,949
Deferred revenues	352,257	239,783	592,040
Other liabilities	13,854	-	13,854
<b>TOTAL LIABILITIES</b>	<b>548,540</b>	<b>286,828</b>	<b>835,368</b>
Fund Balances:			
Reserved for:			
Encumbrances	656,361	-	656,361
Expenditures	797,942	-	797,942
Perpetual (nonexpendable) permanent funds	-	178,870	178,870
Other specific purposes	84,808	-	84,808
Unreserved:			
Undesignated, reported in:			
General fund	2,629,229	-	2,629,229
Special revenue funds	-	2,603,700	2,603,700
Capital project funds	-	313,236	313,236
Permanent (expendable) funds	-	39,449	39,449
<b>TOTAL FUND BALANCES</b>	<b>4,168,340</b>	<b>3,135,255</b>	<b>7,303,595</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,716,880</b>	<b>\$ 3,422,083</b>	<b>\$ 8,138,963</b>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2007

<b>Total governmental fund balances</b>	<b>\$ 7,303,595</b>
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	27,180,638
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	592,040
<ul style="list-style-type: none"><li>• In addition, an allowance for uncollectible accounts is reported under the accrual basis of accounting.</li></ul>	(218,997)
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on out-standing long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(148,926)
<ul style="list-style-type: none"><li>• Long-term liabilities (bonds payable), are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(14,170,000)</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 20,538,350</u></b>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 9,550,630	\$ -	\$ 9,550,630
Excises	807,233	-	682,003
Penalties, interest and other taxes	103,014	-	103,014
Charges for services	642,365	1,644,023	2,286,388
Intergovernmental	4,866,394	919,828	5,786,222
Licenses and permits	22,248	-	22,248
Fines and forfeitures	42,777	-	42,777
Investment income	454,657	79,191	533,848
Sale of assets	26,600	-	26,600
Miscellaneous	82,842	-	82,842
Total Revenues	<u>16,598,760</u>	<u>2,643,042</u>	<u>19,116,572</u>
<b>Expenditures:</b>			
Current:			
General government	756,874	10,383	767,257
Public safety	1,281,247	727,558	2,008,805
Education	8,363,711	2,170,061	10,533,772
Public works	1,118,264	4,033	1,122,297
Health and human services	144,814	7,988	152,802
Culture and recreation	271,315	10,352	281,667
Employee benefits	2,457,636	-	2,457,636
Miscellaneous	145,961	-	145,961
Debt service	1,303,306	49,025	1,352,331
Intergovernmental	491,608	-	491,608
Total Expenditures	<u>16,334,736</u>	<u>2,979,400</u>	<u>19,314,136</u>
Excess (deficiency) of revenues over expenditures	264,024	(336,358)	(72,334)
<b>Other Financing Sources (Uses):</b>			
Transfers in	108,486	765,119	873,605
Transfers out	(85,614)	(784,591)	(870,205)
Total Other Financing Sources (Uses)	<u>22,872</u>	<u>(19,472)</u>	<u>3,400</u>
Change in fund balance	286,896	(355,830)	(68,934)
Fund Equity, at Beginning of Year	<u>3,881,444</u>	<u>3,491,085</u>	<u>7,372,529</u>
Fund Equity, at End of Year	<u>\$ 4,168,340</u>	<u>\$ 3,135,255</u>	<u>\$ 7,303,595</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (68,934)</b>
---	--------------------

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

Capital outlay purchases	424,208
Depreciation	(1,234,301)
Disposition of capital assets, net	(81,900)

- 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 and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, net of allowance for uncollectible. 90,142

- 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 assets:

Repayments of debt	755,000
--------------------	---------

- In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 7,774

<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>(108,011)</u></b>
--	----------------------------

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Other Sources:</b>				
Taxes	\$ 9,481,822	\$ 9,481,822	\$ 9,481,822	\$ -
Excise	783,000	783,000	807,233	24,233
Penalties, interest and other taxes	67,400	67,400	103,014	35,614
Charges for services	535,693	535,693	642,365	106,672
Intergovernmental	3,188,550	3,188,550	3,266,327	77,777
Licenses and permits	20,000	20,000	22,248	2,248
Fines and forfeits	25,000	25,000	42,777	17,777
Investment income	230,000	230,000	454,657	224,657
Miscellaneous	40,000	40,000	82,842	42,842
Transfers in	18,301	18,301	108,486	90,185
Sale of assets	-	-	26,600	26,600
Other sources	611,082	647,262	647,262	-
Total Revenues and Other Sources	15,000,848	15,037,028	15,685,633	648,605
<b>Expenditures and Other Uses:</b>				
General government	797,283	809,753	491,586	318,167
Public safety	1,285,914	1,306,213	1,302,250	3,963
Education	6,761,087	6,761,087	6,753,949	7,138
Public works	1,088,734	1,099,734	1,079,427	20,307
Health and human services	156,120	156,120	144,639	11,481
Culture and recreation	270,711	275,108	270,069	5,039
Employee benefits	2,596,072	2,596,072	2,457,636	138,436
Debt service	1,304,431	1,304,431	1,303,306	1,125
Intergovernmental	494,730	494,730	491,608	3,122
Miscellaneous	145,152	148,166	146,658	1,508
Other financing uses (tax title)	15,000	-	-	-
Transfers out	85,614	85,614	85,614	-
Total Expenditures and Other Uses	15,000,848	15,037,028	14,526,742	510,286
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,158,891	\$ 1,158,891

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b><u>ASSETS</u></b>			
Current:			
Cash and short-term investments	\$ 788,250	\$ 4,179,715	\$ 4,967,965
User fees, net of allowance for uncollectables	344,987	598,033	943,020
Intergovernmental receivables	-	9,592,935	9,592,935
Total current assets	1,133,237	14,370,683	15,503,920
Noncurrent:			
Capital assets, land and construction in progress		14,301,996	14,301,996
Capital assets, net of accumulated depreciation	12,318,759	2,643,106	14,961,865
Total noncurrent assets	12,318,759	16,945,102	29,263,861
<b>TOTAL ASSETS</b>	<b>13,451,996</b>	<b>31,315,785</b>	<b>44,767,781</b>
<b><u>LIABILITIES</u></b>			
Current:			
Warrants payable	8,093	5,985	14,078
Accounts payable	-	1,226,868	1,226,868
Accrued liabilities	135,651	233,676	369,327
Other liabilities	-	2,041	2,041
Current portion of long-term liabilities:			
Bonds payable	185,620	857,607	1,043,227
Total current liabilities	329,364	2,326,177	2,655,541
Noncurrent:			
Bonds payable, net of current portion	5,029,474	20,697,291	25,726,765
Total noncurrent liabilities	5,029,474	20,697,291	25,726,765
<b>TOTAL LIABILITIES</b>	<b>5,358,838</b>	<b>23,023,468</b>	<b>28,382,306</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	7,103,665	5,078,257	12,181,922
Unrestricted	989,493	3,214,060	4,203,553
<b>TOTAL NET ASSETS</b>	<b>\$ 8,093,158</b>	<b>\$ 8,292,317</b>	<b>\$ 16,385,475</b>

See notes to financial statements.



TOWN OF LEE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 1,145,312	\$ 1,868,943	\$ 3,014,255
Total Operating Revenues	1,145,312	1,868,943	3,014,255
<b>Operating Expenses:</b>			
Salaries and wages	341,972	214,820	556,792
Operating expenses	123,852	299,052	422,904
Materials and supplies	96,279	25,395	121,674
Depreciation	541,870	181,969	723,839
Capital outlay	133,049	30,728	163,777
Other	12,875	5,340	18,215
Total Operating Expenses	1,249,897	757,304	2,007,201
Operating Income (Loss)	(104,585)	1,111,639	1,007,054
<b>Nonoperating Revenues (Expenses):</b>			
Interest expense	(235,498)	(234,754)	(470,252)
Total Nonoperating Revenues (Expenses), Net	(235,498)	(234,754)	(470,252)
Change in Net Assets	(340,083)	876,885	536,802
Net Assets at Beginning of Year	8,433,241	7,415,432	15,848,673
Net Assets at End of Year	\$ 8,093,158	\$ 8,292,317	\$ 16,385,475

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 1,212,055	\$ 1,450,443	\$ 2,662,498
Payments to vendors and employees	<u>(712,581)</u>	<u>(619,318)</u>	<u>(1,331,899)</u>
Net Cash Provided By Operating Activities	499,474	831,125	1,330,599
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Bond proceeds	-	11,866,845	11,866,845
Acquisition and construction of capital assets	-	(11,819,310)	(11,819,310)
Principal payments on bonds and notes	(181,933)	(9,484)	(191,417)
Interest payments	<u>(238,366)</u>	<u>(1,423)</u>	<u>(239,789)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>(420,299)</u>	<u>36,628</u>	<u>(383,671)</u>
Net Change in Cash and Short-Term Investments	79,175	867,753	946,928
Cash and Short Term Investments, Beginning of Year	<u>709,075</u>	<u>3,311,962</u>	<u>4,021,037</u>
Cash and Short Term Investments, End of Year	<u>\$ 788,250</u>	<u>\$ 4,179,715</u>	<u>\$ 4,967,965</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u></b>			
Operating income (loss)	\$ (104,585)	\$ 1,111,639	\$ 1,007,054
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	541,870	181,969	723,839
Changes in assets and liabilities:			
User fees	66,743	(418,501)	(351,758)
Warrants and accounts payable	<u>(4,554)</u>	<u>(43,982)</u>	<u>(48,536)</u>
Net Cash Provided By Operating Activities	<u>\$ 499,474</u>	<u>\$ 831,125</u>	<u>\$ 1,330,599</u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2007

	Private Purpose Trust Funds	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 196,876	\$ 188,045
Total Assets	196,876	188,045
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Warrants payable	2,000	533
Deposits held in custody	-	174,759
Other liabilities	-	12,753
Total Liabilities	2,000	188,045
<b><u>NET ASSETS</u></b>		
Total net assets held in trust	\$ 194,876	\$ -

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ 14,950
Investment income	<u>9,675</u>
Total additions	24,625
<b>Deductions:</b>	
Education expense	<u>14,206</u>
Total deductions	<u>14,206</u>
Net increase	10,419
<b>Net assets:</b>	
Beginning of year	<u>184,457</u>
End of year	<u>\$ 194,876</u>

See notes to financial statements.

## **Town of Lee, Massachusetts**

### **Notes to Financial Statements**

#### **1. Summary of Significant Accounting Policies**

The accounting policies of the Town of Lee (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### **A. Reporting Entity**

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2007, it was determined that no entities met the required GASB-14 criteria of component units.

##### **B. Government-Wide and Fund Financial Statements**

###### **Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary 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 properly included among program revenues are reported instead as *general revenues*.

###### **Fund Financial Statements**

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.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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 property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. 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.

The government 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.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water Fund
- Sewer Fund

The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

#### D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

#### E. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2007 tax levy reflected an excess capacity of \$ 451,202.

#### F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) 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 in excess of two years. 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets-</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	50 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

#### G. Compensated Absences

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



#### **H. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

#### **I. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

#### **J. Use of Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

#### **K. Inter-Fund Transfers**

Transfers between funds do not offset because of a transfer from an Agency Fund to the General Fund for \$ 3,400.

### **2. Stewardship, Compliance and Accountability**

#### **A. Budgetary Information**

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

#### **B. Budgetary Basis**

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

#### **C. Budget/GAAP Reconciliation**

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 16,598,760	\$ 16,334,736
Other financing sources/uses (GAAP basis)	108,486	85,614
Adjust tax revenue to accrual basis	(68,808)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(949,902)
Add end of year appropriation carryforwards to expenditures	-	656,361
To reverse the effect of nonbudgeted State contributions for teachers retirement	(1,600,067)	(1,600,067)
Recognize use of fund balance as funding source/uses	647,262	-
Budgetary basis	<u>\$ 15,685,633</u>	<u>\$ 14,526,742</u>

#### **D. Deficit Fund Equity**

The following funds had deficits as of June 30, 2007:

Rural Business Development	\$ (3,406)
Adult Education	\$ (5,039)

The deficits in these funds will be eliminated through future departmental revenues and transfers from other funds.

### **3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Laws Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2007, \$ 2,454,311 of the Town's bank balance of \$ 12,937,921 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

### **4. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a semiannual basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2007 consist of the following:

Real Estate		
2007	\$ 264,552	
2006	<u>20,426</u>	284,978
Personal Property		
2007	5,499	
2006	-	
2005	<u>205</u>	5,704
Deferred Taxes		7,784
Tax Liens, Foreclosures and Taxes in Litigation		<u>105,810</u>
Total		<u>\$ 404,276</u>

#### 5. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>	<u>Business</u> <u>Type</u>
Real estate, personal property and deferred taxes	\$ 9,110	\$ -
Tax liens and other noncurrent taxes	95,708	-
Excises	1,313	-
Ambulance	112,866	-
Utilities	-	104,301

#### 6. Intergovernmental Receivables

The balance reported in the governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2007.

The balance reported in the Sewer Enterprise Fund represents State (Massachusetts Pollution Abatement Trust) loan commitment funds, not drawn down as of year end.

#### 7. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	Beginning Balance (Restated) *	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 28,818	\$ -	\$ -	\$ 28,818
Machinery, equipment, and furnishings	4,570	424	(323)	4,671
Infrastructure	1,526	-	-	1,526
Total capital assets, being depreciated	34,914	424	(323)	35,015
Less accumulated depreciation for:				
Buildings and improvements	(5,186)	(771)	-	(5,957)
Machinery, equipment, and furnishings	(3,041)	(425)	242	(3,224)
Infrastructure	(605)	(38)	-	(643)
Total accumulated depreciation	(8,832)	(1,234)	242	(9,824)
Total capital assets, being depreciated, net	26,082	(810)	(81)	25,191
Capital assets, not being depreciated:				
Land	1,990	-	-	1,990
Governmental activities capital assets, net	\$ 28,072	\$ (810)	\$ (81)	\$ 27,181

Note: Governmental activities beginning capital asset balance has been restated to include retrospective infrastructure.

<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 5,332	\$ -	\$ -	\$ 5,332
Machinery, equipment, and furnishings	2,561	22	(20)	2,563
Infrastructure	22,656	-	-	22,656
Total capital assets, being depreciated	30,549	22	(20)	30,551
Less accumulated depreciation for:				
Buildings and improvements	(2,033)	(133)	-	(2,166)
Machinery, equipment, and furnishings	(1,367)	(121)	20	(1,468)
Infrastructure	(11,485)	(470)	-	(11,955)
Total accumulated depreciation	(14,885)	(724)	20	(15,589)
Total capital assets, being depreciated, net	15,664	(702)	-	14,962
Capital assets, not being depreciated:				
Construction in progress	1,278	13,024	-	14,302
Business-type activities capital assets, net	\$ 16,942	\$ 12,322	\$ -	\$ 29,264

Depreciation expense was charged to functions of the Town as follows (in thousands):

<b>Governmental Activities:</b>	
General government	\$ 60
Public safety	120
Education	846
Public works	153
Culture and recreation	36
Human services	19
Total depreciation expense - governmental activities	\$ 1,234
<b>Business-Type Activities:</b>	
Water	\$ 542
Sewer	182
Total depreciation expense - business-type activities	\$ 724

## 8. Warrants and Accounts Payable

Warrants payable represent 2007 expenditures paid by July 15, 2007 as permitted by law. Accounts payable represent additional 2007 expenditures paid after July 15, 2007.

## 9. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2007 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

## 10. Long-Term Debt

### A. 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 currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
<u>Governmental Activities:</u>			
<u>Bonds Payable:</u>			
Road	10/15/07	4.05 - 4.80	\$ 5,000
Fire truck	10/15/07	4.05 - 4.80	40,000
Landfill	10/15/07	4.05 - 4.80	35,000
Fire truck	10/01/10	4.50 - 6.00	30,000
Ambulance garage	10/01/11	4.50 - 6.00	150,000
High school	05/01/21	3.00 - 4.00	2,915,000
Elementary school	12/15/22	3.99	10,995,000
Total Governmental Activities Debt			<u>\$ 14,170,000</u>
<u>Business-Type Activities:</u>			
<u>Bonds Payable:</u>			
Water meter installation	03/15/09	3.00	\$ 200,000
Sewer plant (MWPAT)	08/01/15	1.00 - 2.00	127,054
Water filtration (#1)	04/10/35	4.50	1,438,925
Water filtration (#3)	10/06/35	4.50	3,309,109
Water filtration (#4)	10/06/38	4.50	267,060
Sewer plant (MWPAT #5-35)	07/15/26	2.00	21,427,844
Total Business-Type Activities Debt			<u>\$ 26,769,992</u>

### B. State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low interest rate loan program. The loans are administered by the States and are used by local communities to improve their sewer systems.

In 2002, the Town was authorized to borrow a total of \$ 196,459 through the Massachusetts Water Pollution Abatement Trust (MWPAT) Revolving Loan Program to begin the design phase of a sewer plant upgrade. This total is included in the Town's long-term debt.

In addition to offering these loans at reduced interest rates, MWPAT has also subsidized the loan principal as follows:

	<u>Original Loan</u>	<u>Principal Subsidy</u>	<u>Net Repay.</u>	<u>Outstanding Balance at June 2007</u>
Loan # 98-146	\$ 196,459	\$ (46,652)	\$ 149,807	\$ 127,054

### C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 760,000	\$ 561,864	\$ 1,321,864
2009	720,000	539,822	1,259,822
2010	750,000	516,859	1,266,859
2011	780,000	491,159	1,271,159
2012	800,000	462,384	1,262,384
2013 - 2017	4,400,000	1,815,431	6,215,431
2018 - 2022	5,005,000	833,260	5,838,260
2023 - 2027	955,000	20,891	975,891
Total	\$ <u>14,170,000</u>	\$ <u>5,241,670</u>	\$ <u>19,411,670</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2007:

General Fund	\$ 14,020,000
Special revenue fund	<u>150,000</u>
	\$ <u>14,170,000</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,043,227	\$ 690,015	\$ 1,733,242
2009	1,101,730	628,662	1,730,392
2010	1,024,279	603,292	1,627,571
2011	1,047,399	580,370	1,627,769
2012	1,072,162	556,864	1,629,026
2013 - 2017	5,716,331	2,411,331	8,127,662
2018 - 2022	6,333,543	1,733,451	8,066,994
2023 - 2027	7,102,240	964,751	8,066,991
Thereafter	2,329,081	579,843	2,908,924
Total	<u>\$ 26,769,992</u>	<u>\$ 8,748,579</u>	<u>\$ 35,518,571</u>

**D. Changes in General Long-Term Liabilities**

During the year ended June 30, 2007, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 1-Jul-06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 30-Jun-07</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 30-Jun-07</u>
<u>Governmental Activities</u>						
Bonds payable	\$ <u>14,925</u>	\$ <u>-</u>	\$ <u>(755)</u>	\$ <u>14,170</u>	\$ <u>(760)</u>	\$ <u>13,410</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ <u>5,536</u>	\$ <u>21,428</u>	\$ <u>(194)</u>	\$ <u>26,770</u>	\$ <u>(1,043)</u>	\$ <u>25,727</u>

**11. Restricted Net Assets**

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

**12. Reserves of Fund Equity**

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2007:



Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Other Specific Purposes - Represents premiums received on bonds issued in fiscal year 2006 that have been reserved to reduce debt service in future years.

### **13. Commitments and Contingencies**

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Outstanding Contract Negotiation - The contract between the Town and the Teamsters Local 404, representing police officers, expired on July 1, 2006. Contract negotiations were suspended in fiscal year 2007 due to a dispute over the change of representative. The Massachusetts Division of Labor Relations resolved the dispute and an agreement was approved by the Town and Teamsters on January 22, 2008. The Town is liable for back pay (regular and overtime) for the period ending June 30, 2007 in the amount of \$ 37,490. The Town intends to fund this expenditure through reserve fund transfers and free cash.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Sewer Treatment Plant Capacity - The Town has been ordered by the Department of Environmental Protection (DEP) to increase its sewer treatment plant capacity. In a September 2004 Special Town Meeting, the Town voted to reject a privatization scenario and the Town has moved forward with plans for a conventionally constructed plant.

The original DEP order called for a completion date of December 2000. The Town has been negotiating with the DEP and has provided explanations as to the reasons for the delay in compliance. The Town estimates the total cost to be approximately \$ 22 million. Since the initial borrowing authorization for design in 1998, the Town has authorized total borrowing of \$ 22.3 million. The Town received two low interest loans through the Massachusetts Water Pollution Abatement Trust (MWPAT). In fiscal year 2000 they received a \$ 196,459 loan and in fiscal year 2006 they were authorized for a \$ 21.4 million loan, of which approximately \$ 11.9 million was drawn down in fiscal year 2007.

The plant is expected to be operational by January 2008.

**14. Post-Employment Health Care and Life Insurance Benefits**

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2007 was 145, at a cost of \$ 414,087.

**15. Pension Plan**

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

**A. Plan Description**

The Town contributes to the Berkshire County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Berkshire County Retirement System.

## **B. Funding Policy**

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2007, 2006 and 2005 were \$ 592,691, \$ 571,815 and \$ 535,962, respectively, which were equal to its annual required contributions for each of these years.

## **C. Teachers**

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participants date of entry into the system and gross earnings, up to \$ 30,000, 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%

Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

Effective January 1, 1990, all participants hired after January 1, 1979, must pay an additional 2% of salary in excess of \$ 30,000. The Town's current year covered payroll for teachers was not available.

In fiscal year 2007, the Commonwealth of Massachusetts contributed \$ 1,600,067 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

**16. Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

**17. Beginning Net Assets Restatement**

The beginning (July 1, 2006) net assets of the Town of Lee have been restated as follows:

Government-Wide Financial Statements:

	Governmental <u>Activities</u>
As previously reported	\$ 19,725,513
To record the net book value of infrastructure assets acquired in prior years, in compliance with GAAP.	<u>920,848</u>
As restated	<u><u>\$ 20,646,361</u></u>



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

51 Davis Street • Suite 1  
Greenfield, MA 01301-2422  
Tel (413) 773-5405 • Fax (413) 773-7304  
[www.melansonheath.com](http://www.melansonheath.com)

**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 the financial statements of the governmental activities, the 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, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 16, 2008. 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.

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or

*Additional Offices:*

Nashua, NH • Ellsworth, ME • Andover, MA

detected by the Town's internal control. We consider the deficiencies described below (items 07-1, 07-2 and 07-3) to be significant deficiencies in internal control over financial reporting.

**07-1. CONSIDER IMPLEMENTING INTERNAL CONTROL IMPROVEMENTS (SIGNIFICANT DEFICIENCY)**

In accordance with a new generally accepted audit standard (SAS 112), which is effective for all fiscal year 2007 audits, independent auditors must now report issues (called "significant deficiencies") to the governing body.

SAS 112 specifically requires that certain situations, if present in the municipality, must be reported as a significant deficiency. Although these conditions may not be new to the municipality, and may be very common practices for Massachusetts municipalities, they must now be reported in the management letter. The governing body of the Town should evaluate the cost/benefit of these issues to determine whether corrective action is warranted.

The following summarizes certain of the current and past practices in the Town that meet the new criteria of significant deficiencies:

**Establish Internal Controls over the Preparation of Audited Financial Statements:**

Although the Town maintains its accounting records in accordance with standards established by the State statutes, and is able to prepare reports for internal and State purposes, historically, the annual financial statements have been drafted by the independent auditor. Because the Town must take full responsibility for the accuracy and disclosure of the financial statements, it must, either internally, or through the use of a qualified outside party (other than the independent auditor), review the financial statements and related footnote disclosures, to assure compliance with generally accepted accounting principles, and to verify that no material misstatements exist. Relying on the independent auditor to perform these functions is considered a control deficiency.

**Corrective Action to be Considered:**

The Town should either provide additional staff training in the area of preparing financial statements prepared under the GASB 34 reporting model or retain a service provider to prepare, assist in the preparation or review of the statements to ensure material misstatements are not present.

**Document Components of Internal Control:**

In order to establish an effective system of internal controls, the Town should document the policies, procedures and controls over key financial transactions, including cash, tax/excise/utility receivable activity, departmental receipts, purchasing, vendor disbursements, employee benefit/payroll disbursements, and general ledger maintenance. This documentation could be used by departments as guidance to help safeguard assets, properly record transactions, and provide a basis for continuing operations when turnover occurs in key financial departments. Although the Town maintains certain policies and procedures, they are not complete, or distributed to all applicable departmental personnel.

**Corrective Action to be Considered:**

Several years ago, the Committee of Sponsoring Organizations (COSO) of the President's Council on Integrity and Efficiency published comprehensive internal control guidance that has recently been put in place by publicly traded companies as a result of Sarbanes Oxley legislation. The COSO report outlines five components of effective internal control: Control Environment, Risk Assessment, Control Activities,

Information & Communication, and Monitoring. The Town should consider implementing a written internal control framework using the COSO model. Software programs are available to assist with this process.

Town's Response:

The Town will provide additional staff training in the area of preparing financial statements pursuant to the GASB 34 reporting model; and, it will continue to document its policies, procedures and controls over key financial transactions.

**07-2. RECONCILE SEWER/WATER DETAIL RECEIVABLES (MATERIAL WEAKNESS)**

In fiscal year 2007 the Town transferred sewer and water receivables to a new software system. It appears that as a result of the conversion, misstatements occurred in the detailed (individual) receivable balances. As of June 30, 2007, the total of all detailed balances was higher than the general ledger balance by \$ 73,615.

We recommend the Town work with the new software provider, if necessary, to identify the source of the differences and make the necessary corrections.

Town's Response:

The Town will redouble its efforts to identify the source of the differences and make the necessary corrections; and, if necessary, will work with the software provider to address any associated software issues.

**07-3. IMPROVE CONTROLS OVER POLICE DEPARTMENT PAYROLL (SIGNIFICANT DEFICIENCY)**

During our testing of payroll procedures we found that Police Outside Detail payroll is not being approved before payment is processed. For one employee tested, there was evidence of only 28 hours worked, although he was paid for 32 hours. Since officers are paid for outside detail work before the Town bills for the services, inadequate approval of this type of pay increases the risk that the Town may not be adequately reimbursed.

We recommend that the job foreman approve the officers' time sheet in order to substantiate hours worked and that this approved time sheet be submitted for payment through payroll processing. This will ensure that hours submitted for payroll are accurate and approved by the customer and that supporting documentation exists.

Town's Response:

Officers will obtain from job foremen written approval on a Police Third Party Detail Voucher specifying the hours worked, and that signed voucher will be submitted for payment through payroll processing.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 07-2 to be a material weakness.

### Compliance and Other Matters

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

The Town's responses to the findings identified in our audit are included above, following each finding. We did not audit Town's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson Heath & Company, P.C.*

Greenfield, Massachusetts  
September 16, 2008