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February 1, 2016

To the Members of the Board of Selectmen
Town of Lee
7 Mast Road
Lee, NH 03861

Dear Members of the Board:

We have audited the financial statements of the governmental activities, major fund, and aggregate remaining fund information of the Town of Lee for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 23, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Lee are described in Note 1 to the financial statements. As described in Note 1-Q to the financial statements, the Town of Lee changed accounting policies related to net pension liability and related deferred outflow of resources and deferred inflow of resources, by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions* and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in the fiscal year ended June 30, 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Governmental Activities. We noted no transactions entered into by the Town of Lee during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the governmental activities financial statements were:

Management's estimate of the capital assets useful lives is based on historical information and industry guidance. We evaluated the key factors and assumptions used to develop the useful lives of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions are based on assumptions of future events, such as employment, mortality, and estimates of the value of reported amounts. We evaluated the key factors and assumptions used to develop the net pension liability, deferred inflows and deferred outflows of resources related to pensions in determining that they are reasonable in relation to the financial statements as taken as a whole.

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The most sensitive estimate affecting the governmental fund financial statements was:

Management's estimate of the allowance for uncollectible taxes is based on historical data and information known concerning the assessment appeals. We evaluated the key factors and assumptions used to develop the allowance for uncollectible taxes in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 1, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Town of Lee's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Town of Lee's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Postemployment Benefits (GASB No. 45)

The Town's financial statements do not comply with the requirements of GASB Statement No. 45 dealing with the financial reporting for other postemployment benefit (OPEB) plans. We recommend that the Board of Selectmen take steps to come into compliance with the pronouncement.

Tax Collector Office

When performing the audit fieldwork of the Tax Collector's records, members of the engagement team noted the following conditions:

- Deposits were taken from the office overnight and deposited the following day.
- Deposits were comingled with the deposits of another entity in the same deposit bank. Deposits were in the same bag as deposits from the other entity, as admitted by the Tax Collector.
- A resident was in the Tax Collector's locked office with the door wide open during hours of operation.



We recommend that the internal controls over the Tax Collector be reviewed and revised as deemed appropriate address the above noted conditions, which should include:

- If deposits cannot be taken directly to the bank, they should be locked in the safe until such time that someone can take the deposit directly to the bank.
- Do no comingle deposits of the Town with other entities.
- Access to the Tax Collector office should be limited to authorized personnel, such as the Tax Collector and Deputy Tax Collector.

Other Matters

Implementation of New GASB Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 72, *Fair Value Measurement, and Application*, issued in February 2015, will be effective for the School District beginning with its fiscal year ending June 30, 2016. The guidance contained in this statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 73, *Accounting, and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, issued in June 2015, will be effective for the School District beginning with its fiscal year ending June 30, 2016. This statement improves the usefulness of information about pensions included in the general purpose external financial reports.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plan Other than Pension Plans*, issued in June 2015, will be effective for the School District beginning with its fiscal year ending June 30, 2017. This Statement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB).

GASB Statement No. 75, *Accounting, and Financial Reporting for Postemployment Benefits Other than Pensions*, issued in June 2015, will be effective for the School District beginning with its fiscal year ending June 30, 2018. This Statement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB). This statement replaces the requirements of Statements No. 45 and No. 57.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued in August 2015, will be effective for the School District beginning with its fiscal year ending June 30, 2017. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55.

We applied certain limited procedures to the Schedule of the Town's Proportionate Share of Net Pension Liability and the Schedule of Town Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Combining and Individual Fund Schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.



Town of Lee
February 1, 2016
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Restriction on Use

This information is intended solely for the use of the Board of Selectmen and management of the Town of Lee and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Plodzik & Sanderson

PLODZIK & SANDERSON
Professional Association



**TOWN OF LEE,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

TOWN OF LEE, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Lee
Lee, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, major fund, and aggregate remaining fund information of the Town of Lee, New Hampshire as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 17 to the financial statements, management has not recorded the long-term costs of retirement health care costs and obligations for other postemployment benefits in the governmental activities. Accounting principles generally accepted in the United States of America require that those costs be recorded, which would increase the liabilities, decrease the net position and increase the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses on the governmental activities is not readily determinable.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities financial statements of the Town of Lee, as of June 30, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Town of Lee
Independent Auditor's Report*

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and aggregate remaining fund information of the Town of Lee, New Hampshire as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparisons for the major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1-Q to the financial statements, in 2015, the Town changed its method of accounting for pension reporting with the adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 9), the Schedule of the Town's Proportionate Share of Net Pension Liability (page 36) and the Schedule of Town Contributions (page 37) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information - Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Lee's basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

February 1, 2016

*Plodzik & Sanderson
Professional Association*

Town of Lee, NH

Management Discussion and Analysis

2015

As management of the Town of Lee, NH, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Town of Lee, NH for the fiscal year ended June 30, 2015.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Lee's basic financial statements. The Town of Lee's basic financial statements comprise four components: 1) government-wide financial statements; 2) fund financial statements; 3) notes to the financial statements; and 4) required supplementary information. 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 citizens with a broad overview of the Town's finances, in a manner similar to a private-sector business.

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

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

The governmental activities of the Town include general government, public safety, roadways, sanitation, cemetery, library, trust and capital reserve funds, grants, conservation, agricultural, heritage, and recreation.

Fund financial statements: A *fund* is a set of reports that is used to segregate specific activities. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental or fiduciary funds.

Governmental Funds: *Governmental funds* are used to report on the general operations of the Town. They 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, fund financial statements focus only on current expenditures and revenue (*inflows and outflows of spendable resources this year*), 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 current 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, citizens 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*.

The Town adopts an annual appropriated budget for its general operations (general fund). A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary Funds: *Fiduciary funds* are used to account for resources held for the benefit of parties outside the Lee town government, such as developer's performance bonds, or funds belonging to other governments, and trust funds for which the income is used for purposes that are not normally funded by the Town. Fiduciary funds are *not* reflected in the government-wide financial statement because these funds are not available to support the Town's own programs. The accounting used for the fiduciary funds is much like that used for businesses.

Notes to the 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.

Government-wide Financial Analysis.

	2014	2015	Delta
ASSETS			
Cash and cash equivalents	\$ 6,995,075	\$ 6,952,651	\$ (42,424)
Investments	2,515,199	2,685,348	170,149
Taxes receivable (net)	1,872,279	1,937,929	65,650
Accounts receivable	38,682	31,178	(7,504)
Capital assets:			
Land and construction in progress	8,861,908	8,861,908	-
Other capital assets, net of depreciation	4,261,073	4,298,398	37,325
Total assets	<u>24,544,216</u>	<u>24,767,412</u>	<u>223,196</u>
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to pensions	<u>179,230</u>	<u>180,014</u>	<u>784</u>
LIABILITIES			
Accounts payable	106,072	23,216	(82,856)
Accrued salaries and benefits	-	62,957	62,957
Accrued interest payable	11,403	10,421	(982)
Intergovernmental payable	4,814,146	5,114,542	300,396
Long-term liabilities:			
Due within one year	92,477	90,000	(2,477)
Due in more than one year	920,159	838,472	(81,687)
Net pension liability	230,923	2,073,694	1,842,771
Total liabilities	<u>6,175,180</u>	<u>8,213,302</u>	<u>195,351</u>
DEFERRED INFLOWS OF RESOURCES			
Amounts related to pensions	-	276,233	276,233
Unavailable revenue - Property taxes	1,145,353	1,083,709	(61,644)
Unavailable revenue - Joint loss safety committee	-	687	687
Total deferred outflows of resources	<u>1,145,353</u>	<u>1,360,629</u>	<u>215,276</u>
NET POSITION			
Net investment in capital assets	11,282,981	12,410,306	1,127,325
Restricted	164,722	168,131	3,409
Unrestricted	<u>3,795,210</u>	<u>2,795,058</u>	<u>(1,000,152)</u>
Total net position	<u>\$ 15,242,913</u>	<u>\$ 15,373,495</u>	<u>\$ 130,582</u>

As noted earlier, net position may, over time serve as a useful indicator of a government's financial position. In the case of the Town of Lee, assets exceeded liabilities by \$15,373,495 at the close of the most recent fiscal year.

By far the largest portion of the Town's net position, equaling \$12,410,306, reflects its investment in capital assets (e.g., land, buildings, vehicles, etc.). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its 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.

Town of Lee Statement of Activities

Revenues:	2014	2015	Delta
Program revenues:			
Charges for services	\$184,973	\$145,884	(39,089)
Operating grants	\$114,085	\$101,993	(12,092)
General revenues:			
Property Taxes	\$2,232,044	\$2,085,852	(146,192)
Other Taxes	\$112,392	\$140,348	27,956
Licenses and permits	\$715,787	\$750,518	34,731
Unrestricted grants	\$195,307	\$209,586	14,279
Unrestricted Investment Earnings	\$11,559	\$6,706	(4,853)
Miscellaneous	\$103,180	\$98,944	(4,236)
Total revenues	\$3,669,327	\$3,539,831	(129,496)
Expenses:			
General Government	\$1,480,685	\$1,598,057	117,372
Public Safety	\$1,139,808	\$1,063,049	(76,759)
Highways and Streets	\$427,123	\$179,664	(247,459)
Sanitation	\$309,258	\$292,076	(17,182)
Health	\$9,585	\$9,693	108
Welfare	\$23,764	\$22,643	(1,121)
Culture & Recreation	\$242,953	\$209,093	(33,860)
Conservation	\$13,726	\$3,878	(9,848)
Interest on long-term debt	\$35,284	\$31,096	(4,188)
Total governmental activities	\$3,682,186	\$3,409,249	(272,937)
Net Pension Liability - GASB 68*		(\$2,211,693)	
Change in net position	-\$12,859	\$130,582	
Beginning net position	\$17,467,465	\$17,454,606	
Ending net position	\$17,454,606	\$15,373,495	

At the end of the current fiscal year, the Town of Lee, NH is able to report positive balances in net position for the government as a whole. The same situation held true for the prior fiscal year.

** Effective for fiscal years starting after June 15, 2014, the Governmental Accounting Standards Board approved a new standard, identified as GASB 68, which was designed to improve accounting and financial reporting for state and local government pension plans. It addresses pension plans that are administered through trusts that meet certain criteria, such as the New Hampshire Retirement System, which the Town of Lee and its employees contribute to under NH RSA 100-A. The Town's actual contributions in FY15 were \$199,963.*

Town of Lee Changes in Fund Balances
General Fund Budgetary Comparison

	Estimated	Actual	Variance
Revenues			
Taxes			
Property	\$2,053,748	\$2,085,852	\$32,104
Other	\$86,900	\$140,348	\$53,448
Licenses Permits Fees	\$717,000	\$750,518	\$33,518
State & Federal	\$314,445	\$311,579	(\$2,866)
Income from Departments	\$100,065	\$80,911	(\$19,154)
Miscellaneous	\$54,500	\$72,262	\$17,762
Transfers from Capital Reserves	\$255,000	\$108,992	(\$146,008)
Total Revenues	\$3,581,658	\$3,550,462	(\$31,196)
Unassigned Fund Balance Used to Offset Taxes	\$716,292		
Total	\$4,297,950		
		Actual	
	Budgeted	Expenses	Variance
Appropriations, Expenditures, Encumbrances			
Operating Budget			
General Government	\$1,576,834	\$1,510,586	(\$66,248)
Public Safety	\$914,904	\$872,786	(\$42,118)
Highway	\$480,243	\$466,777	(\$13,466)
Transfer Station	\$311,284	\$262,652	(\$48,632)
Health	\$11,273	\$9,693	(\$1,580)
Welfare	\$34,272	\$22,643	(\$11,629)
Library, Culture & Recreation	\$243,969	\$199,371	(\$44,598)
Conservation	\$3,500	\$3,500	-
Debt Service	\$122,078	\$122,078	-
Operating Budget Total	\$3,698,357	\$3,470,086	(\$228,271)
Encumbered from Prior Year			\$65,000
Encumbered to Subsequent Year			-
Capital Outlay	\$207,593	\$30,025	(\$177,568)
Transfers To Capital Reserve Funds	\$392,000	\$392,000	-
TOTAL	\$4,297,950	\$3,892,111	\$470,839

Beginning Unassigned Fund Balance	\$2,975,379
Fund Balance used to reduce 2015 Tax Rate	(\$716,292)
Revenue Surplus	(31,196)
Budget Surplus	\$470,839
Increase in Assigned Fund Balance	(\$100,000)
Ending Unassigned Fund Balance	\$2,598,730
Uncollected Property Tax Revenue*	\$208,897

Almost 38% of the budget surplus came as a result of the unfortunate inability to negotiate a successful Purchase & Sales agreement for the Kennard Property.

*This tax revenue is not included in the calculation of the Unassigned Fund Balance; however it is not available to pay for current expenditures.

General Fund Budgetary Highlights

The Town experienced an almost \$3,900,000 increase in the 2015 taxable assessed valuation as a result of new and continuing construction, with roughly 205 new building permits in 2015, of which six were for new homes and twenty-three (23) were commercial.

As shown in the above chart, revenues received during 2015 increased by \$115,000 from 2014, reversing the trend from previous years. Revenue from Motor Vehicle Registrations and other Licenses, Permits and Fees increased, although revenue from recyclables is down significantly, mainly due to lower oil prices. Funding from the State of New Hampshire decreased slightly, continuing a trend of recent years of decreased State revenue sharing.

Although the overall Operating Budget increased by over \$100,000 in FY2015, the budget ended up being underspent by approximately \$228,000, all of which, plus an additional \$222,000, was returned to the taxpayers in the 2015 Tax Rate from the Unassigned Fund Balance.

Capital Asset and Debt Administration

Capital Assets - The Town of Lee's investment in capital assets includes land and improvements, buildings, rolling stock, equipment, and roadways and is defined as having a value in excess of \$5,000 and a useful life of over five years.

Assets are depreciated on a straight-line basis, with the original cost divided evenly by the useful life of the asset. Land is not depreciated.

	2014	2015	Delta
At cost:			
Not being depreciated:			
Land	\$ 8,861,908	\$ 8,861,908	\$ -
Being depreciated:			
Buildings and building improvements	2,401,934	2,415,004	13,070
Equipment and vehicles	1,777,407	1,774,444	(2,963)
Infrastructure	5,299,560	5,613,155	313,595
Total capital assets being depreciated	<u>9,478,901</u>	<u>9,802,603</u>	<u>323,702</u>
Total all capital assets	<u>18,340,809</u>	<u>18,664,511</u>	<u>323,702</u>
Less accumulated depreciation:			
Buildings and building improvements	(858,837)	(937,566)	(78,729)
Equipment and vehicles	(1,239,959)	(1,322,028)	(82,069)
Infrastructure	(3,119,032)	(3,244,611)	(125,579)
Total accumulated depreciation	<u>(5,217,828)</u>	<u>(5,504,205)</u>	<u>(286,377)</u>
Net book value, capital assets being depreciated	<u>4,261,073</u>	<u>4,298,398</u>	<u>37,325</u>
Net book value, all capital assets	<u>\$ 13,122,981</u>	<u>\$ 13,160,306</u>	<u>\$ 37,325</u>

Additional information on the Town of Lee's net capital assets, depreciation, and debt may be found in the notes to the financial statements.

Long-term Debt - At the end of the current fiscal year, the Town of Lee had total bonded debt owed of \$876,553 for the Transfer Station and the Public Safety Complex. This includes a total of \$750,000 in outstanding principle and \$126,553 in interest payments. These bonds are a general obligation of the taxpayers of Lee, N.H. The Safety Complex debt will be retired in fiscal year 2023 and the Transfer Station in fiscal year 2024.

	2014	2015	Delta
General obligation bonds payable	\$ 840,000	\$ 750,000	\$ (90,000)
Compensated absences	172,636	178,472	5,836
Net pension liability	2,390,923	2,073,694	(317,229)
Total long-term liabilities	<u>\$ 3,403,559</u>	<u>\$ 3,002,166</u>	<u>\$ (401,393)</u>

Requests for information

This financial report is designed to provide a general overview of the Town of Lee, NH’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Administrator, 7 Mast Road, Lee, NH 03861 or townadministrator@leenh.org.

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF LEE, NEW HAMPSHIRE
Statement of Net Position
June 30, 2015

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 6,952,651
Investments	2,685,348
Taxes receivable (net)	1,937,929
Accounts receivable	31,178
Capital assets:	
Land and construction in progress	8,861,908
Other capital assets, net of depreciation	4,298,398
Total assets	24,767,412
DEFERRED OUTFLOWS OF RESOURCES	
Amounts related to pensions	180,014
LIABILITIES	
Accounts payable	23,216
Accrued salaries and benefits	62,957
Accrued interest payable	10,421
Intergovernmental payable	5,114,542
Long-term liabilities:	
Due within one year	90,000
Due in more than one year	838,472
Net pension liability	2,073,694
Total liabilities	8,213,302
DEFERRED INFLOWS OF RESOURCES	
Amounts related to pensions	276,233
Unavailable revenue - Property taxes	1,083,709
Unavailable revenue - Joint loss safety committee	687
Total deferred inflows of resources	1,360,629
NET POSITION	
Net investment in capital assets	12,410,306
Restricted	168,131
Unrestricted	2,795,058
Total net position	\$ 15,373,495

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
TOWN OF LEE, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended June 30, 2015

	Expenses	Program Revenues		Net (Expense) Revenue and Change In Net Position
		Charges for Services	Operating Grants and Contributions	
General government	\$ 1,598,057	\$ 16,402	\$ -	\$ (1,581,655)
Public safety	1,063,049	69,578	4,793	(988,678)
Highways and streets	179,664	-	97,200	(82,464)
Sanitation	292,076	59,904	-	(232,172)
Health	9,693	-	-	(9,693)
Welfare	22,643	-	-	(22,643)
Culture and recreation	209,093	-	-	(209,093)
Conservation	3,878	-	-	(3,878)
Interest on long-term debt	31,096	-	-	(31,096)
Total governmental activities	<u>\$ 3,409,249</u>	<u>\$ 145,884</u>	<u>\$ 101,993</u>	<u>(3,161,372)</u>

General revenues:

Taxes:	
Property	2,085,852
Other	140,348
Motor vehicle permit fees	701,990
Licenses and other fees	48,528
Grants and contributions not restricted to specific programs	209,586
Unrestricted investment earnings	6,706
Miscellaneous	98,944
Total general revenues	<u>3,291,954</u>
Change in net position	130,582
Net position, beginning, as restated (see Note 15)	15,242,913
Net position, ending	<u>\$ 15,373,495</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
TOWN OF LEE, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
June 30, 2015

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 6,672,310	\$ 114,667	\$ 6,786,977
Investments	295,287	121,659	416,946
Accounts receivable	11,920	19,258	31,178
Taxes	2,002,929	-	2,002,929
Interfund receivable	77,174	-	77,174
Restricted assets:			
Cash and cash equivalents	165,674	-	165,674
Investments	2,268,402	-	2,268,402
Total assets	<u>\$ 11,493,696</u>	<u>\$ 255,584</u>	<u>\$ 11,749,280</u>
LIABILITIES			
Accounts payable	\$ 23,216	\$ -	\$ 23,216
Accrued salaries and benefits	62,479	478	62,957
Intergovernmental payable	5,114,542	-	5,114,542
Interfund payable	-	77,174	77,174
Total liabilities	<u>5,200,237</u>	<u>77,652</u>	<u>5,277,889</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - Property taxes	1,357,606	-	1,357,606
Unavailable revenue - Joint Loss Safety Committee	687	-	687
Total deferred inflows of resources	<u>1,358,293</u>	<u>-</u>	<u>1,358,293</u>
FUND BALANCES			
Nonspendable	-	111,710	111,710
Restricted	10,400	46,021	56,421
Committed	2,395,071	20,201	2,415,272
Assigned	139,862	-	139,862
Unassigned	2,389,833	-	2,389,833
Total fund balances	<u>4,935,166</u>	<u>177,932</u>	<u>5,113,098</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 11,493,696</u>	<u>\$ 255,584</u>	<u>\$ 11,749,280</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
TOWN OF LEE, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2015

Total fund balances of governmental funds (Exhibit C-1)		\$ 5,113,098
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 18,664,511	
Less accumulated depreciation	<u>(5,504,205)</u>	13,160,306
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (77,174)	
Payables	<u>77,174</u>	-
Certain items are not current financial resources in the governmental funds, instead these items are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions	\$ 180,014	
Deferred inflows of resources related to pensions	<u>(276,233)</u>	(96,219)
Other long-term assets (property taxes) are not available to pay for current period expenditures, and therefore, are reported as unavailable revenue in the funds.		208,897
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(10,421)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bonds	\$ 750,000	
Compensated absences	178,472	
Net pension liability	<u>2,073,694</u>	(3,002,166)
Net position of governmental activities (Exhibit A)		<u><u>\$ 15,373,495</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-3
TOWN OF LEE, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 2,236,954	\$ -	\$ 2,236,954
Licenses and permits	750,518	-	750,518
Intergovernmental	311,579	-	311,579
Charges for services	80,911	64,973	145,884
Miscellaneous	99,973	5,677	105,650
Total revenues	<u>3,479,935</u>	<u>70,650</u>	<u>3,550,585</u>
EXPENDITURES			
Current:			
General government	1,510,586	-	1,510,586
Public safety	872,786	68,391	941,177
Highways and streets	466,777	-	466,777
Sanitation	262,652	-	262,652
Health	9,693	-	9,693
Welfare	22,643	-	22,643
Culture and recreation	205,654	-	205,654
Conservation	2,215	-	2,215
Debt service:			
Principal	90,000	-	90,000
Interest	32,078	-	32,078
Capital outlay	30,025	-	30,025
Total expenditures	<u>3,505,109</u>	<u>68,391</u>	<u>3,573,500</u>
Net change in fund balances	(25,174)	2,259	(22,915)
Fund balances, beginning	4,960,340	175,673	5,136,013
Fund balances, ending	<u>\$ 4,935,166</u>	<u>\$ 177,932</u>	<u>\$ 5,113,098</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-4
TOWN OF LEE, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2015

Net change in fund balances of governmental funds (Exhibit C-3)		\$ (22,915)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Capitalized capital outlay	\$ 360,582	
Depreciation expense	<u>(323,257)</u>	37,325
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Change in deferred tax revenue		(10,754)
The repayment of the principal of long-term debt consumes the current financial resources of the governmental funds, but has no effort on net position.		
Repayment of bond principal		90,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 982	
Increase in compensated absences payable	(5,836)	
Change in the net pension liability, including changes in the deferred outflows/inflows of resources	<u>41,780</u>	<u>36,926</u>
Changes in net position of governmental activities (Exhibit B)		<u><u>\$ 130,582</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D
TOWN OF LEE, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts <u>Original and Final</u>	Actual	Variance Positive (Negative)
REVENUES			
Taxes	\$ 2,140,648	\$ 2,226,200	\$ 85,552
Licenses and permits	717,000	750,518	33,518
Intergovernmental	314,445	311,579	(2,866)
Charges for services	100,065	80,911	(19,154)
Miscellaneous	54,500	72,262	17,762
Total revenues	<u>3,326,658</u>	<u>3,441,470</u>	<u>114,812</u>
EXPENDITURES			
Current:			
General government	1,576,834	1,480,586	96,248
Public safety	914,904	872,786	42,118
Highways and streets	480,243	431,777	48,466
Sanitation	311,284	262,652	48,632
Health	11,273	9,693	1,580
Welfare	34,272	22,643	11,629
Culture and recreation	243,969	199,371	44,598
Conservation	3,500	3,500	-
Debt service:			
Principal	90,000	90,000	-
Interest	32,078	32,078	-
Capital outlay	207,593	30,025	177,568
Total expenditures	<u>3,905,950</u>	<u>3,435,111</u>	<u>470,839</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(579,292)</u>	<u>6,359</u>	<u>585,651</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	255,000	108,992	(146,008)
Transfers out	(392,000)	(392,000)	-
Total other financing sources (uses)	<u>(137,000)</u>	<u>(283,008)</u>	<u>(146,008)</u>
Net change in fund balances	<u>\$ (716,292)</u>	<u>(276,649)</u>	<u>\$ 439,643</u>
Increase in assigned fund balance		(100,000)	
Unassigned fund balance, beginning		2,975,379	
Unassigned fund balance, ending		<u>\$ 2,598,730</u>	

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-1
TOWN OF LEE, NEW HAMPSHIRE
Fiduciary Funds
Statement of Net Position
June 30, 2015

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ -	\$ 81,626
Investments	57,095	-
Total assets	57,095	81,626
LIABILITIES		
Due to others	-	81,626
NET POSITION		
Held in trust for specific purposes	\$ 57,095	\$ -

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-2
TOWN OF LEE, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2015

	Private Purpose Trust
ADDITIONS	
New funds	\$ 3,350
Interest	858
Net position, beginning	52,887
Net position, ending	\$ 57,095

The notes to the basic financial statements are an integral part of this statement.

TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

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TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Lee, New Hampshire (the Town), have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

The more significant of the Town's accounting policies are described below.

1-A Reporting Entity

The Town of Lee is a municipal corporation governed by an elected three member Board of Selectmen. In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The Town has no component units to include in its reporting entity.

1-B Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Position presents the financial position of the governmental activities of the Town at year-end. This statement includes all of the Town's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, with the exception of the long term costs of retirement, health care, and obligations for other postemployment benefits have also been omitted because the liability and expense have not been determined.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund is reported as separate columns in the fund financial statements.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1-C Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when 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.

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for State shared revenue, reimbursement-based grants and interest which use one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlement, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

The Town reports the following major governmental fund:

General Fund – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

All the governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the Town reports the following fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Permanent Fund - is used to record activity of legal trusts for which the interest on the corpus provides funds for the Town's cemetery operations.

Fiduciary Funds – The Town also reports the following fiduciary funds:

Private Purpose Trust Fund - is used to account for all trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Agency Fund - used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments.

1-D Cash and Cash Equivalents

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts.

The treasurer is required to deposit such moneys in solvent banks in state or the Public Deposit Investment Pool pursuant to New Hampshire RSA 383:22. Funds may be deposited in banks outside of the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations to the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-E Restricted Assets

Certain cash and investment accounts are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is legally restricted for specified purposes; laws and/or enabling legislation. Also, certain resources have been set aside to fund capital asset additions or replacements.

TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

1-F Investments

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the State treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments for the Town are reported at fair value generally based on quoted market prices.

1-G Receivables

Receivables recorded in the financial statements represent amounts due to the Town at June 30. They are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. They consist primarily of taxes, billing for charges, and other user fees.

1-H Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “interfund receivables and payables.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

1-I Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated minimum useful life in excess of five years. As the Town constructs or acquires additional capital assets each year, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Classes:	<u>Years</u>
Buildings and building improvements	20-30
Equipment and vehicles	5-15
Infrastructure	10-30

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

1-J Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses/expenditure) until then.

In addition to liabilities, the Statement of Net Position will report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

1-K Property Taxes

Property tax billings occur semi-annually and are based on the assessed inventory values as of April 1 of each year. Warrants for the year were issued on May 12, 2014 and November 19, 2014, and due on July 1, 2014 and December 1, 2014. Interest accrues at a rate of 12% on bills outstanding after the due date and 18% on tax liens outstanding.

In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for tax abatement and refunds, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any reserve for uncollectable at year end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Oyster River Cooperative School District, and Strafford County, which are remitted to these entities as required by law.

The Town net assessed valuation as of April 1, 2014 utilized in the setting of the tax rate was as follows:

For the New Hampshire education tax	\$ 410,463,532
For all other taxes	\$ 416,878,532

The tax rates and amounts assessed for the year ended June 30, 2015 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$5.19	\$ 2,161,943
School portion:		
State of New Hampshire	\$2.51	1,031,151
Local	\$19.12	7,971,104
County portion	\$2.88	1,200,993
Total		\$ 12,365,191

1-L Compensated Absences

The Town's policy allows certain employees to earn varying amounts of vacation and sick pay based on the employee's length of employment. Upon retirement or termination of employment, employees are paid in full for any accrued leave earned as set forth by personnel policy.

Vested amounts of both vacation and sick pay are reported as long-term liabilities in the government-wide financial statements.

1-M Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities.

TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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1-N Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-O Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-P Net Position/Fund Balance Reporting

Government-wide Statements – Equity is classified as net position and displayed in three components:

- a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- b) *Restricted net position* – Consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance Classifications - The fund balance of governmental funds is reported in five categories based on the nature of any limitations requiring the use of resources for specific programs. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The classifications used in the Town’s governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (Town Meeting). These amounts cannot be used for any other purpose unless the legislative body removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

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Assigned – This classification includes amounts that are constrained by the Town’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen through the budgetary process.

Unassigned – This classification includes the residual fund balance for the general fund.

When multiple net position/fund balance classifications are available for use, it is the government’s policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

1-Q Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

The schedules prepared by New Hampshire Retirement System, and audited by the plan’s independent auditors, require management to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results could differ, and the differences may be material.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town’s operations. At its annual meeting, the Town adopts a budget for the current year for the general fund. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the assigned fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. For the fiscal year 2015, \$716,292 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

The Town employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year-end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

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The following reconciles the general fund budgetary basis to the GAAP basis:

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 3,550,462
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record miscellaneous income of the blended funds	27,711
To eliminate transfers between blended funds	(108,992)
Change in deferred tax revenue relating to 60-day revenue recognition	10,754
Per Exhibit C-3 (GAAP basis)	<u>\$ 3,479,935</u>
 Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 3,827,111
Adjustment:	
Basis differences:	
Encumbrances, beginning	65,000
GASB Statement No. 54:	
To record expendable trust expenditures during the year	4,998
To eliminate transfers between general and blended funds	(392,000)
Per Exhibit C-3 (GAAP basis)	<u>\$ 3,505,109</u>

2-C Change in Accounting Principle

Effective July 1, 2014, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of this Statement change the way the Town calculates and reports the costs and obligations associated with pensions. As a result of implementing GASB Statement No. 68 the Town has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2014 by \$2,211,693 (see Note 15). The reduction accounts for the associated net position liability, deferred inflows of resources, and deferred outflows of resources related to pensions.

Also, the Town adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement addresses and issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employer and nonemployer contributing entities.

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

The Town's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held by the Town's agent in the Town's name. The FDIC currently insures the first \$250,000 of the Town's deposits at each financial institution, per case custodian. Deposit balances over \$250,000 are insured by the collateral. As of year-end, the carrying amount of the Town's deposits was \$7,034,277 and the bank balances totaled \$7,208,796. Petty cash totaled \$80.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 6,952,651
Cash per Statement of Net Position-Fiduciary Funds (Exhibit E-1)	81,626
Total cash and cash equivalents	<u>\$ 7,034,277</u>

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Custodial Credit Risk – The Town’s repurchase agreements are all with banking institutions; therefore, are subject to custodial credit risk. The custodial credit risk is the risk that in the event of bank failure, the Town’s deposits may not be recovered.

Interest Rate Risk – The term repurchase agreements are also subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the value of the Town’s investments.

NOTE 4 – INVESTMENTS

Note 1-F describes statutory requirements covering the investment of the Town funds. The Town also maintains a portfolio of intermediate maturity investments that are reported at fair value, based on quoted market prices. The Town’s fiscal agent or custodian provides the fair value of all intermediate maturity investments.

At June 30, 2015, this Town had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years
Investments type:			
Certificates of deposit	\$ 1,325,129	\$ 894,825	\$ 430,304
Insured cash sweep account	1,122,027	1,122,027	-
New Hampshire Public Deposit Investment Pool	295,287	295,287	-
Total fair value	\$ 2,742,443	\$ 2,312,139	\$ 430,304

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Town’s formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 2,685,348
Investments per Statement of Net Position-Fiduciary Funds (Exhibit E-1)	57,095
Total investments	\$ 2,742,443

NOTE 5 – RESTRICTED CASH AND INVESTMENTS

Certain Town assets are restricted for the following purposes:

Cash and cash equivalents:	
Public library	\$ 4,240
Expendable trust funds	132,829
Agriculture commission	6,100
Heritage commission	19,109
Conservation commission	3,396
Total cash and cash equivalents	165,674
Investments:	
Public library	6,160
Expendable trust funds	2,262,242
Total investments	2,268,402
Total restricted assets	\$ 2,434,076

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NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent the amount of current and prior year taxes which have not been collected as of June 30, 2015. The amount has been reduced by an allowance for an estimated uncollectible amount of \$65,000. Taxes receivable by year are as follows:

	As reported on:	
	Exhibit A	Exhibit C-1
Property:		
Levy of 2015	\$ 1,647,360	\$ 1,647,360
Unredeemed (under tax lien):		
Levy of 2014	227,314	227,314
Levy of 2013	88,075	88,075
Levies of 2012 and prior	26,469	26,469
Yield	7,689	7,689
Land use change	6,000	6,000
Excavation	22	22
Less: allowance for estimated uncollectible taxes	(65,000) *	-
Net taxes receivable	<u>\$ 1,937,929</u>	<u>\$ 2,002,929</u>

*The allowance for uncollectible property taxes is not recognized under the modified accrual basis of accounting (Exhibit C-1 and C-3) due to the 60 day rule as explained in Note 1-C. However, the allowance is recognized under the full accrual basis of accounting (Exhibits A and B).

NOTE 7 – RECEIVABLES

Receivables at June 30, 2015, consisted of accounts (billings for police and fire details) and intergovernmental amounts arising from grants. Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 8,861,908	\$ -	\$ -	\$ 8,861,908
Being depreciated:				
Buildings and building improvements	2,401,934	13,070	-	2,415,004
Equipment and vehicles	1,777,407	33,917	(36,880)	1,774,444
Infrastructure	5,299,560	313,595	-	5,613,155
Total capital assets being depreciated	<u>9,478,901</u>	<u>360,582</u>	<u>(36,880)</u>	<u>9,802,603</u>
Total all capital assets	<u>18,340,809</u>	<u>360,582</u>	<u>(36,880)</u>	<u>18,664,511</u>
Less accumulated depreciation:				
Buildings and building improvements	(858,837)	(78,729)	-	(937,566)
Equipment and vehicles	(1,239,959)	(118,949)	36,880	(1,322,028)
Infrastructure	(3,119,032)	(125,579)	-	(3,244,611)
Total accumulated depreciation	<u>(5,217,828)</u>	<u>(323,257)</u>	<u>36,880</u>	<u>(5,504,205)</u>
Net book value, capital assets being depreciated	4,261,073	37,325	-	4,298,398
Net book value, all capital assets	<u>\$ 13,122,981</u>	<u>\$ 37,325</u>	<u>\$ -</u>	<u>\$ 13,160,306</u>

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Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

General government	\$ 127,607
Public safety	130,351
Highways and streets	31,751
Sanitation	30,109
Culture and recreation	3,439
Total depreciation expense	<u>\$ 323,257</u>

NOTE 9 – INTERFUND BALANCES

The composition of interfund balances as of June 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor - Police detail revolving	\$ 74,014
General	Nonmajor - Police forfeiture	3,160
		<u>\$ 77,174</u>

The outstanding balances among funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 10 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$5,114,542 at June 30, 2015 consist of:

General fund:	
Balance due to the Oyster River Cooperative School District	\$ 4,512,525
Balance due to the Strafford County	602,017
Total intergovernmental payable	<u>\$ 5,114,542</u>

NOTE 11 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources of \$180,014 reported in the Governmental Activities at June 30, 2015 consist of amounts related to pensions.

Deferred inflows of resources are as follows:

	Governmental Activities	General Fund
Unavailable property tax revenue	\$ 1,083,709	\$ 1,357,606
Amounts related to pensions	276,233	-
Unavailable joint loss safety committee revenue	687	687
Total deferred inflows of resources	<u>\$ 1,360,629</u>	<u>\$ 1,358,293</u>

NOTE 12 – LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities consisted of the following for the year ended June 30, 2015:

	Balance July 1, 2014 (as restated)	Additions	Reductions	Balance June 30, 2015	Due Within One Year
General obligation bonds payable	\$ 840,000	\$ -	\$ (90,000)	\$ 750,000	\$ 90,000
Compensated absences	172,636	66,721	(60,885)	178,472	-
Net pension liability	2,390,923	-	(317,229)	2,073,694	-
Total long-term liabilities	<u>\$ 3,403,559</u>	<u>\$ 66,721</u>	<u>\$ (468,114)</u>	<u>\$ 3,002,166</u>	<u>\$ 90,000</u>

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Long-term liabilities are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2015
General obligation bonds payable:					
Public safety complex	\$ 1,200,000	2003	2023	3.7 - 4.4%	\$ 480,000
Transfer station	\$ 600,000	2004	2024	4.57%	270,000
					750,000
Compensated absences payable:					
Vested sick leave					79,930
Accrued vacation leave					98,542
					178,472
Total					\$ 928,472

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2015, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 90,000	\$ 28,643	\$ 118,643
2017	90,000	25,848	115,848
2018	90,000	21,978	111,978
2019	90,000	17,873	107,873
2020	90,000	13,964	103,964
2021-2024	300,000	18,247	318,247
Totals	\$ 750,000	\$ 126,553	\$ 876,553

All debt is general obligation debt of the Town, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

NOTE 13 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at June 30, 2015 include the following:

Net investment in capital assets:	
Net property, buildings, and equipment	\$ 13,160,306
Less:	
General obligation bonds payable	(750,000)
Total net investment in capital assets	12,410,306
Restricted net position:	
Library	10,400
Perpetual care	157,731
Total restricted net position	168,131
Unrestricted	2,795,058
Total net position	\$ 15,373,495

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NOTE 14 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at June 30, 2015 include the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:			
Permanent fund - principal balance	\$ -	\$ 111,710	\$ 111,710
Restricted:			
Library	10,400	-	10,400
Permanent fund - income balance	-	46,021	46,021
Total restricted fund balance	<u>10,400</u>	<u>46,021</u>	<u>56,421</u>
Committed:			
Expendable trust	2,395,071	-	2,395,071
Police detail revolving	-	19,154	19,154
Police forfeiture	-	129	129
Recreation revolving	-	918	918
Total committed fund balance	<u>2,395,071</u>	<u>20,201</u>	<u>2,415,272</u>
Assigned:			
Contingency	100,000	-	100,000
Conservation commission	6,981	-	6,981
Heritage commission	25,952	-	25,952
Farmers market	6,929	-	6,929
Total assigned fund balance	<u>139,862</u>	<u>-</u>	<u>139,862</u>
Unassigned	<u>2,389,833</u>	<u>-</u>	<u>2,389,833</u>
Total governmental fund balances	<u>\$ 4,935,166</u>	<u>\$ 177,932</u>	<u>\$ 5,113,098</u>

NOTE 15 – PRIOR PERIOD ADJUSTMENT

Fund balance at July 1, 2015 was restated to give retroactive effect to the following prior period adjustment:

To record deferred outflows of resources for implementation of GASB Statements No. 68 and 71	\$ 179,230
To record net pension liability for implementation of GASB Statements No. 68 and 71	(2,390,923)
Fund balance, as previously reported	<u>17,454,606</u>
Fund balance, as restated	<u>\$ 15,242,913</u>

NOTE 16 – DEFINED BENEFIT PENSION PLAN

Plan Description: The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The Pension Plan was established in 1967 by RSA 100-A:2 and is qualified as a tax exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers with in the State are eligible and required to participate in the Pension Plan. The System issues a publically available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

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Benefits Provided: The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and available to pay retirement benefits to all members.

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC) multiplied by years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the member attains 52.5 years of age by ¼ of 1% or age 60.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances, subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Contributions: The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. The contribution rates were 11.55% for police officers, 11.80% for firefighters; all other employees are required to contribute 7% of earnable compensation. For fiscal year 2015, the Town contributed 25.40% for police, 27.85 for fire, and 10.77% for other employees. The contribution requirements for the fiscal years 2013, 2014, and 2015 were \$160,335, \$202,051, and \$199,963, respectively, which were paid in full in each year.

Pension Liabilities, Pension Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015 the Town reported a liability of \$2,073,694 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and school districts, actuarially determined. At June 30, 2015, the Town's proportion was 0.05524570% which was a decrease of 0.00030827% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$138,234. At June 30, 2015 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ -	\$ 10,903
Net difference between projected and actual investment earnings on pension plan investments	-	265,330
Contributions subsequent to the measurement date	180,014	-
Total	<u>\$ 180,014</u>	<u>\$ 276,233</u>

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The \$180,014 reported as deferred outflows of resources related to pensions results from the Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	
2016	\$ (68,699)
2017	(68,699)
2018	(68,699)
2019	(1,439)
Totals	<u>\$ (207,536)</u>

Actuarial Assumptions: The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2013, using the following actuarial assumptions which, accordingly apply to both 2014 and 2013 measurements:

Inflation:	3.0%
Salary increases:	3.75- 5.8% average, including inflation
Investment rate of return:	7.75% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

Long-term Rates of Return: The long-term expected rate of return on pension plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2014 and 2013:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return	
		2014	2013
Large Cap Equities	22.50%	3.25%	3.75%
Small/Mid Cap Equities	7.50%	3.25%	4.00%
Total domestic equity	30.00%		
Int'l Equities (unhedged)	13.00%	4.25%	4.75%
Emerging Int'l Equities	7.00%	6.50%	6.75%
Total international equity	20.00%		
Core Bonds	18.00%	(0.47%)	(0.96%)
High-Yield Bonds	1.50%	1.50%	2.00%
Global Bonds (unhedged)	5.00%	(1.75%)	(2.25%)
Emerging Market Debt (external)	0.50%	2.00%	1.00%
Total fixed income	25.00%		
Private equity	5.00%	5.75%	6.00%
Private debt	5.00%	5.00%	5.50%
Real estate	10.00%	3.25%	3.00%
Opportunistic	5.00%	2.50%	2.63%
Total alternative investments	25.00%		
Total	100.00%		

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Discount Rate: The discount rate used to measure the collective total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan’s actuarial funding policy as required by RSA 100-A:16. Based on those assumptions, the Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

Sensitivity of the Town’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

Actuarial Valuation Date	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
June 30, 2014	\$ 2,731,393	\$ 2,073,694	\$ 1,518,827
June 30, 2013	\$ 3,065,214	\$ 2,390,923	\$ 1,824,118

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separated issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan financial report.

NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in preceding note, the Town offers limited postemployment benefits options for health care to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and whether the employee has vested in the respective retirement plan. The Town funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, which was effective for the Town on January 1, 2009, requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported on the financial statements. The Town has not implemented GASB Statement No. 45 at June 30, 2015 or contracted with an actuarial firm to assist in evaluating the impact of this new standard on the Town. The amounts that should be recorded as the annual required contribution/OPEB cost and the net OPEB obligation are unknown.

NOTE 18 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2015, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex³) Workers’ Compensation and Property/Liability Programs. This entity is considered a public entity risk pools, currently operating as common risk management and insurance programs for member Towns and cities.

The New Hampshire Public Risk Management Exchange (Primex³) Workers’ Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1, 2014 to June 30, 2015 by Primex³, which retained \$1,000,000 of each workers’ compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Lee billed and paid for the year ended June 30, 2015 was \$43,843 for workers’ compensation and \$42,059 for property/liability.

TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

NOTE 19 – CONTINGENCIES

The Town participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

NOTE 20 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through February 1, 2016, the date the June 30, 2015 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
TOWN OF LEE, NEW HAMPSHIRE
Schedule of the Town's Proportionate Share of Net Pension Liability
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2015

Fiscal Year	Valuation Date	Districts Proportion of Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll	District Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	July 1, 2014	0.05524570%	\$ 2,073,694	\$ 1,152,439	179.94%	66.32%
June 30, 2014	July 1, 2013	0.05555397%	\$ 2,390,923	\$ 1,164,423	205.33%	59.81%

The note to the required supplementary information is an integral part of this schedule.

EXHIBIT G
TOWN OF LEE, NEW HAMPSHIRE
Schedule of Town Contributions
New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2015

Fiscal Year	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	July 1, 2014	\$ 179,230	\$ 179,230	\$ -	\$ 1,152,439	15.55%
June 30, 2014	July 1, 2013	\$ 138,137	\$ 138,137	\$ -	\$ 1,164,423	11.86%

The note to the required supplementary information is an integral part of this schedule.

TOWN OF LEE, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Schedule of the Town's Proportionate Share of Net Pension Liability & Schedule of Town Contributions

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits G and H represent the actuarial determined costs associated with the Town's pension plan at June 30, 2015.

Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2014:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	25 Years beginning July 1, 2014
Asset Valuation Method	5-Year smooth market for funding purposes
Price Inflation	3.0% per year
Wage Inflation	3.75% per year
Salary Increases	5.8% Average, including inflation
Municipal Bond Rate	4.29% per year
Investment Rate of Return	7.75% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study of the period 2005-2010.
Mortality	RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

Other Information:

Notes Contribution rates for Fiscal Year 2014 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF LEE, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2015

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 2,053,748	\$ 2,085,852	\$ 32,104
Land use change	6,400	6,400	-
Timber	500	11,254	10,754
Excavation	-	22	22
Payment in lieu of taxes	2,000	-	(2,000)
Interest and penalties on taxes	78,000	122,672	44,672
Total from taxes	<u>2,140,648</u>	<u>2,226,200</u>	<u>85,552</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	12,000	9,746	(2,254)
Motor vehicle permit fees	670,000	701,990	31,990
Building permits	14,000	15,351	1,351
Other	21,000	23,431	2,431
Total from licenses, permits, and fees	<u>717,000</u>	<u>750,518</u>	<u>33,518</u>
Intergovernmental:			
State:			
Meals and rooms distribution	209,235	209,235	-
Highway block grant	96,310	97,200	890
Other	8,900	5,144	(3,756)
Total from intergovernmental	<u>314,445</u>	<u>311,579</u>	<u>(2,866)</u>
Charges for services:			
Income from departments	<u>100,065</u>	<u>80,911</u>	<u>(19,154)</u>
Miscellaneous:			
Sale of municipal property	-	4,516	4,516
Interest on investments	12,000	6,706	(5,294)
Insurance dividends and reimbursements	-	17,818	17,818
Contributions and donations	-	175	175
Other	42,500	43,047	547
Total from miscellaneous	<u>54,500</u>	<u>72,262</u>	<u>17,762</u>
Other financing sources:			
Transfers in	<u>255,000</u>	<u>108,992</u>	<u>(146,008)</u>
Total revenues and other financing sources	3,581,658	<u>\$ 3,550,462</u>	<u>\$ (31,196)</u>
Unassigned fund balance used to reduce tax rate	716,292		
Total revenues, other financing sources, and use of fund balance	<u>\$ 4,297,950</u>		

SCHEDULE 2
TOWN OF LEE, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2015

	Encumbered from Prior Year	Appropriations	Expenditures	Variance Positive (Negative)
Current:				
General government:				
Executive	\$ -	\$ 129,941	\$ 125,089	\$ 4,852
Election and registration	-	98,703	91,915	6,788
Financial administration	20,000	185,816	177,398	28,418
Revaluation of property	-	30,600	31,418	(818)
Legal	-	15,000	15,223	(223)
Personnel administration	-	754,967	750,921	4,046
Planning and zoning	-	133,510	133,128	382
General government buildings	-	87,829	75,066	12,763
Cemeteries	-	11,114	11,085	29
Insurance, not otherwise allocated	-	90,062	88,799	1,263
Other	10,000	39,292	10,544	38,748
Total general government	<u>30,000</u>	<u>1,576,834</u>	<u>1,510,586</u>	<u>96,248</u>
Public safety:				
Police	-	562,064	547,686	14,378
Ambulance	-	14,501	14,501	-
Fire	-	312,074	296,105	15,969
Emergency management	-	9,200	7,782	1,418
Other	-	17,065	6,712	10,353
Total public safety	<u>-</u>	<u>914,904</u>	<u>872,786</u>	<u>42,118</u>
Highways and streets	<u>35,000</u>	<u>480,243</u>	<u>466,777</u>	<u>48,466</u>
Sanitation:				
Administration	-	160,484	147,505	12,979
Solid waste disposal	-	150,800	115,147	35,653
Total sanitation	<u>-</u>	<u>311,284</u>	<u>262,652</u>	<u>48,632</u>
Health:				
Pest control	-	1,650	70	1,580
Health agencies	-	9,623	9,623	-
Total health	<u>-</u>	<u>11,273</u>	<u>9,693</u>	<u>1,580</u>
Welfare:				
Administration	-	26,250	14,621	11,629
Intergovernmental welfare payments	-	4,772	4,772	-
Vendor payments	-	3,250	3,250	-
Total welfare	<u>-</u>	<u>34,272</u>	<u>22,643</u>	<u>11,629</u>
Culture and recreation:				
Parks and recreation	-	31,600	31,052	548
Library	-	203,619	159,779	43,840
Patriotic purposes	-	550	340	210
Other	-	8,200	8,200	-
Total culture and recreation	<u>-</u>	<u>243,969</u>	<u>199,371</u>	<u>44,598</u>
Conservation	<u>-</u>	<u>3,500</u>	<u>3,500</u>	<u>-</u>
Debt service:				
Principal of long-term debt	-	90,000	90,000	-
Interest on long-term debt	-	32,078	32,078	-
Total debt service	<u>-</u>	<u>122,078</u>	<u>122,078</u>	<u>-</u>

(Continued)

SCHEDULE 2 (Continued)
TOWN OF LEE, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2015

	Encumbered from Prior Year	Appropriations	Expenditures	Variance Positive (Negative)
Capital outlay	-	207,593	30,025	177,568
Other financing uses:				
Transfers out	-	392,000	392,000	-
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 65,000</u>	<u>\$ 4,297,950</u>	<u>\$ 3,892,111</u>	<u>\$ 470,839</u>

SCHEDULE 3
TOWN OF LEE, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2015

Unassigned fund balance, beginning		\$ 2,975,379
Changes:		
Unassigned fund balance used to reduce 2015 tax rate		(716,292)
2015 Budget summary:		
Revenue shortfall (Schedule 1)	\$ (31,196)	
Unexpended balance of appropriations (Schedule 2)	<u>470,839</u>	
2015 Budget surplus		439,643
Increase in assigned fund balance		<u>(100,000)</u>
Unassigned fund balance, ending (Exhibit D)		2,598,730
<i>Reconciliation of Non-GAAP Budgetary Basis to GAAP Basis:</i>		
To comply with generally accepted accounting principles by deferring property taxes not collected within 60 days of fiscal year-end		(273,897)
To remove allowance for doubtful accounts		<u>65,000</u>
Unassigned fund balance, ending (GAAP basis Exhibit C-1)		<u><u>\$ 2,389,833</u></u>

SCHEDULE 4
TOWN OF LEE, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2015

	Special Revenue Funds				Total
	Police Detail Revolving	Police Forfeiture	Recreation Revolving	Permanent Fund	
ASSETS					
Cash and cash equivalents	\$ 74,388	\$ 3,289	\$ 918	\$ 36,072	\$ 114,667
Investments	-	-	-	121,659	121,659
Accounts receivable	19,258	-	-	-	19,258
Total assets	<u>\$ 93,646</u>	<u>\$ 3,289</u>	<u>\$ 918</u>	<u>\$ 157,731</u>	<u>\$ 255,584</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accrued salaries and benefits	\$ 478	\$ -	\$ -	\$ -	\$ 478
Interfund payable	74,014	3,160	-	-	77,174
Total liabilities	<u>74,492</u>	<u>3,160</u>	<u>-</u>	<u>-</u>	<u>77,652</u>
Fund balances:					
Nonspendable	-	-	-	111,710	111,710
Restricted	-	-	-	46,021	46,021
Committed	19,154	129	918	-	20,201
Total fund balances	<u>19,154</u>	<u>129</u>	<u>918</u>	<u>157,731</u>	<u>177,932</u>
Total liabilities and fund balances	<u>\$ 93,646</u>	<u>\$ 3,289</u>	<u>\$ 918</u>	<u>\$ 157,731</u>	<u>\$ 255,584</u>

SCHEDULE 5
TOWN OF LEE, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	Special Revenue Funds				Total
	Police Detail	Police Forfeiture	Recreation Revolving	Permanent Fund	
REVENUES					
Charges for services	\$ 64,973	\$ -	\$ -	\$ -	\$ 64,973
Miscellaneous	9	2,167	2	3,499	5,677
Total revenues	<u>64,982</u>	<u>2,167</u>	<u>2</u>	<u>3,499</u>	<u>70,650</u>
EXPENDITURES					
Current:					
Public safety	63,071	5,320	-	-	68,391
Net change in fund balances	1,911	(3,153)	2	3,499	2,259
Fund balances, beginning	17,243	3,282	916	154,232	175,673
Fund balances, ending	<u>\$ 19,154</u>	<u>\$ 129</u>	<u>\$ 918</u>	<u>\$ 157,731</u>	<u>\$ 177,932</u>