

**TOWN OF LEE,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

TOWN OF LEE, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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PLODZIK & SANDERSON

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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 the aggregate remaining fund information of the Town of Lee as of and for the year ended June 30, 2013, 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 adverse and unmodified 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 net position, and increase 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 government-wide financial statements of the Town of Lee, as of June 30, 2013, or the changes in financial position thereof for the year then ended.

*Town of Lee
Independent Auditor's Report*

Unmodified Opinion

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 as of June 30, 2013, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Management's Discussion and Analysis

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Emphasis of Matter – Supplementary 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 12, 2014

*Plodzik & Sanderson
Professional Association*

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF LEE, NEW HAMPSHIRE
Statement of Net Position
June 30, 2013

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 3,786,454 |
| Investments | 3,463,587 |
| Taxes receivables, net of allowances for uncollectible | 2,013,154 |
| Receivables | 27,201 |
| Restricted cash and cash equivalents | 2,031,542 |
| Restricted investments | 42,902 |
| Capital assets: | |
| Land and construction in progress | 9,035,445 |
| Other capital assets, net of depreciation | 4,355,889 |
| Total assets | 24,756,174 |
| LIABILITIES | |
| Accounts payable | 30,760 |
| Accrued salaries and benefits | 29,752 |
| Accrued interest payable | 12,617 |
| Intergovernmental payable | 4,800,331 |
| Long-term liabilities: | |
| Due within one year | 93,986 |
| Due in more than one year | 941,929 |
| Total liabilities | 5,909,375 |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable revenue - Property taxes | 1,379,334 |
| NET POSITION | |
| Net investment in capital assets | 12,461,334 |
| Restricted for perpetual care | 152,177 |
| Restricted for library purposes | 10,879 |
| Unrestricted | 4,843,075 |
| Total net position | \$ 17,467,465 |

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, 2013

| | Expenses | Program Revenues | | Net (Expense) Revenue and Change In Net Position |
|--|---------------------|----------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | |
| General government | \$ 1,448,840 | \$ 5,758 | \$ 29,554 | \$ (1,413,528) |
| Public safety | 1,030,669 | 142,241 | 2,481 | (885,947) |
| Highways and streets | 326,842 | - | 103,116 | (223,726) |
| Sanitation | 303,932 | 75,253 | - | (228,679) |
| Health | 8,078 | - | - | (8,078) |
| Welfare | 20,500 | - | - | (20,500) |
| Culture and recreation | 209,683 | - | 9,945 | (199,738) |
| Conservation | 6,595 | - | 968 | (5,627) |
| Interest on long-term debt | 39,011 | - | - | (39,011) |
| Total governmental activities | \$ 3,394,150 | \$ 223,252 | \$ 146,064 | (3,024,834) |
| General revenues: | | | | |
| Taxes: | | | | |
| Property | | | | 2,646,871 |
| Other | | | | 117,342 |
| Motor vehicle permit fees | | | | 655,295 |
| Licenses and other fees | | | | 39,591 |
| Grants and contributions not restricted to specific programs | | | | 193,606 |
| Unrestricted investment earnings | | | | 14,134 |
| Miscellaneous | | | | 91,867 |
| Total general revenues | | | | 3,758,706 |
| Change in net position | | | | 733,872 |
| Net position, beginning | | | | 16,733,593 |
| Net position, ending | | | | \$ 17,467,465 |

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, 2013

| | General | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,711,994 | \$ 74,460 | \$ 3,786,454 |
| Investments | 3,338,193 | 125,394 | 3,463,587 |
| Receivables, net of allowance for uncollectible: | | | |
| Accounts | 5,645 | 21,556 | 27,201 |
| Taxes | 2,013,154 | - | 2,013,154 |
| Interfund receivable | 49,092 | - | 49,092 |
| Restricted assets: | | | |
| Cash and cash equivalents | 2,031,542 | - | 2,031,542 |
| Investments | 42,902 | - | 42,902 |
| Total assets | <u>\$ 11,192,522</u> | <u>\$ 221,410</u> | <u>\$ 11,413,932</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 30,760 | \$ - | \$ 30,760 |
| Accrued salaries and benefits | 29,752 | - | 29,752 |
| Due to other governments | 4,800,331 | - | 4,800,331 |
| Interfund payable | - | 49,092 | 49,092 |
| Total liabilities | <u>4,860,843</u> | <u>49,092</u> | <u>4,909,935</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - Property taxes | 1,379,334 | - | 1,379,334 |
| FUND BALANCES | | | |
| Nonspendable | - | 108,560 | 108,560 |
| Restricted | 10,879 | 43,617 | 54,496 |
| Committed | 1,809,603 | 20,141 | 1,829,744 |
| Assigned | 32,402 | - | 32,402 |
| Unassigned | 3,099,461 | - | 3,099,461 |
| Total fund balances | <u>4,952,345</u> | <u>172,318</u> | <u>5,124,663</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 11,192,522</u> | <u>\$ 221,410</u> | <u>\$ 11,413,932</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 Total Governmental Fund Balances to the Statement of Net Position
For the Fiscal Year Ended June 30, 2013

| | | |
|---|--------------------|-----------------------------|
| Total fund balances of governmental funds (Exhibit C-1) | | \$ 5,124,663 |
| 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 | \$ 18,297,976 | |
| Less accumulated depreciation | <u>(4,906,642)</u> | |
| | | 13,391,334 |
| Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position. | | |
| Receivables | \$ (49,092) | |
| Payables | <u>49,092</u> | |
| | | - |
| Interest on long-term debt is not accrued in governmental funds. | | |
| Accrued interest payable | | (12,617) |
| Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds. | | |
| Bonds | \$ (930,000) | |
| Compensated absences | <u>(105,915)</u> | |
| | | <u>(1,035,915)</u> |
| Net position of governmental activities (Exhibit A) | | <u><u>\$ 17,467,465</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, 2013

| | General | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|---------------------|--------------------------------|--------------------------------|
| REVENUES | | | |
| Taxes | \$ 2,764,213 | \$ - | \$ 2,764,213 |
| Licenses and permits | 694,886 | - | 694,886 |
| Intergovernmental | 299,161 | - | 299,161 |
| Charges for services | 81,011 | 142,241 | 223,252 |
| Investment earnings | 14,134 | - | 14,134 |
| Miscellaneous | 124,862 | 7,514 | 132,376 |
| Total revenues | <u>3,978,267</u> | <u>149,755</u> | <u>4,128,022</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 1,359,267 | - | 1,359,267 |
| Public safety | 781,062 | 136,378 | 917,440 |
| Highways and streets | 461,964 | - | 461,964 |
| Sanitation | 272,229 | - | 272,229 |
| Health | 8,078 | - | 8,078 |
| Welfare | 20,500 | - | 20,500 |
| Culture and recreation | 201,305 | 9,034 | 210,339 |
| Conservation | 6,595 | - | 6,595 |
| Debt service: | | | |
| Principal | 90,000 | - | 90,000 |
| Interest | 40,218 | - | 40,218 |
| Capital outlay | 128,797 | - | 128,797 |
| Total expenditures | <u>3,370,015</u> | <u>145,412</u> | <u>3,515,427</u> |
| Excess of revenues over expenditures | <u>608,252</u> | <u>4,343</u> | <u>612,595</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 8,626 | - | 8,626 |
| Transfers out | - | (8,626) | (8,626) |
| Total other financing sources (uses) | <u>8,626</u> | <u>(8,626)</u> | <u>-</u> |
| Net change in fund balances | 616,878 | (4,283) | 612,595 |
| Fund balances, beginning | 4,335,467 | 176,601 | 4,512,068 |
| Fund balances, ending | <u>\$ 4,952,345</u> | <u>\$ 172,318</u> | <u>\$ 5,124,663</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, 2013

| | | |
|---|------------------|--------------------------|
| Net change in fund balances of governmental funds (Exhibit C-3) | | \$ 612,595 |
| 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 | \$ 346,946 | |
| Depreciation expense | <u>(318,125)</u> | 28,821 |
| Transfers in and out between governmental funds are eliminated on the Statement of Activities. | | |
| Transfers in | \$ (8,626) | |
| Transfers out | <u>8,626</u> | - |
| Therepayment of the principal of long-term debt consumes the current financial resources of the governmental funds, but has no effect 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 | \$ 1,207 | |
| Decrease in compensated absences payable | <u>1,249</u> | 2,456 |
| Changes in net position of governmental activities (Exhibit B) | | <u><u>\$ 733,872</u></u> |

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

EXHIBIT D
TOWN OF LEE, NEW HAMPSHIRE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2013

| | Budgeted Amounts | | Actual | Variance |
|---------------------------------------|--------------------|--------------------|---------------------|------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Taxes | \$ 2,746,279 | \$ 2,746,279 | \$ 2,756,465 | \$ 10,186 |
| Licenses and permits | 619,000 | 619,000 | 694,886 | 75,886 |
| Intergovernmental | 291,074 | 299,501 | 299,161 | (340) |
| Charges for services | 87,000 | 87,000 | 81,011 | (5,989) |
| Investment earnings | 24,000 | 24,000 | 14,134 | (9,866) |
| Miscellaneous | 41,000 | 41,000 | 91,867 | 50,867 |
| Total revenues | <u>3,808,353</u> | <u>3,816,780</u> | <u>3,937,524</u> | <u>120,744</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,516,538 | 1,560,680 | 1,359,648 | 201,032 |
| Public safety | 866,745 | 893,482 | 777,894 | 115,588 |
| Highways and streets | 430,878 | 464,055 | 436,964 | 27,091 |
| Sanitation | 297,027 | 297,027 | 272,229 | 24,798 |
| Health | 19,234 | 19,234 | 8,078 | 11,156 |
| Welfare | 24,897 | 24,897 | 20,500 | 4,397 |
| Culture and recreation | 212,751 | 218,623 | 213,880 | 4,743 |
| Conservation | 2,500 | 2,500 | 2,500 | - |
| Debt service: | | | | |
| Principal | 90,000 | 90,000 | 90,000 | - |
| Interest | 40,218 | 40,218 | 40,218 | - |
| Capital outlay | - | 123,297 | 128,797 | (5,500) |
| Total expenditures | <u>3,500,788</u> | <u>3,734,013</u> | <u>3,350,708</u> | <u>383,305</u> |
| Excess of revenues over expenditures | <u>307,565</u> | <u>82,767</u> | <u>586,816</u> | <u>504,049</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 23,140 | 247,938 | 234,665 | (13,273) |
| Transfers out | (353,845) | (353,845) | (345,000) | 8,845 |
| Total other financing sources (uses) | <u>(330,705)</u> | <u>(105,907)</u> | <u>(110,335)</u> | <u>(4,428)</u> |
| Net change in fund balances | <u>\$ (23,140)</u> | <u>\$ (23,140)</u> | 476,481 | <u>\$ 499,621</u> |
| Unassigned fund balance, beginning | | | 2,622,980 | |
| Unassigned fund balance, ending | | | <u>\$ 3,099,461</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 Fiduciary Net Position
June 30, 2013

| | Private Purpose Trust | Agency |
|-------------------------------------|-----------------------------|--------|
| ASSETS | | |
| Cash and cash equivalents | \$ 9,892 | \$ - |
| Investments | 43,320 | 24,979 |
| Total assets | 53,212 | 24,979 |
| LIABILITIES | | |
| Due to others | - | 24,979 |
| NET POSITION | | |
| Held in trust for specific purposes | \$ 53,212 | \$ - |

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, 2013

| | Private Purpose Trust |
|----------------------------|-----------------------------|
| ADDITIONS | |
| Interest | \$ 1,558 |
| DEDUCTIONS | |
| Trust income distributions | 3,024 |
| Change in net position | (1,466) |
| Net position, beginning | 54,678 |
| Net position, ending | \$ 53,212 |

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, 2013

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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, 2013

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. The reporting entity is comprised of the primary government and any other organizations (*component units*) that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organizations; or (2) the Town is legally entitled to or can otherwise access the organization's resources; (3) the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial 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. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function 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. Major individual governmental funds are 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.

TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

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.

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 certain reported amounts and disclosures. Accordingly, 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. The Town reports five nonmajor governmental funds.

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.

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
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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 and accounts (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 assets are reported 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 one year. 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:

| | Years |
|-------------------------------------|-------|
| 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
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1-J Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes 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 a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

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. Billings for the year were on May 14, 2012 and November 6, 2012. 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 Stafford County, which are remitted to these entities as required by law.

The Town net assessed valuation as of April 1, 2013 utilized in the setting of the tax rate was as follows:

| | |
|-------------------------------------|----------------|
| For the New Hampshire education tax | \$ 406,894,867 |
| For all other taxes | \$ 411,991,167 |

The tax rates and amounts assessed for the year ended June 30, 2013 were as follows:

| | Per \$1,000 of Assessed Valuation | Property Taxes Assessed |
|------------------------|---|-------------------------------|
| Municipal portion | \$6.67 | \$ 2,747,676 |
| School portion: | | |
| State of New Hampshire | \$2.41 | 981,844 |
| Local | \$18.22 | 7,504,950 |
| County portion | \$2.64 | 1,088,264 |
| Total | | \$ 12,322,734 |

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 Statement of Net Position.

1-M Long-Term Obligations

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

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.

TOWN OF LEE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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). 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 any 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. The Town has classified the principal portion of permanent funds as being nonspendable.

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. The Town has classified its library fund and the income portion of permanent funds as being restricted.

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. Expendable trust and legislative body votes relative to the use of unassigned fund balance at year-end, in addition to non-lapsing appropriations, are included in this classification. In addition, the Agricultural, Heritage Commission, Conservation Commission, Recreation Revolving, Police Forfeiture, and the Police Detail Revolving funds are included in this classification.

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. The Town also has assigned funds consisting of encumbrances in the general fund at year-end.

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

TOWN OF LEE, NEW HAMPSHIRE
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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.

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. In the fiscal year 2013, \$23,140 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 and Expenditures-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.

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

| | |
|---|--------------|
| Revenues and other financing sources: | |
| Per Exhibit D (budgetary basis) | \$ 4,172,189 |
| Adjustment: | |
| Basis difference: | |
| GASB Statement No. 54: | |
| To record miscellaneous income earned in eliminated funds | 32,995 |
| To record taxes recorded in eliminated funds | 7,748 |
| To eliminate transfers between general and expendable trust funds | (226,039) |
| Per Exhibit C-3 (GAAP basis) | \$ 3,986,893 |
| Expenditures and other financing uses: | |
| Per Exhibit D (budgetary basis) | \$ 3,695,708 |
| Adjustment: | |
| Basis differences: | |
| Encumbrances, beginning | 41,721 |
| Encumbrances, ending | (32,402) |
| GASB Statement No. 54: | |
| To record expenditures in eliminated funds | 9,988 |
| To eliminate transfers between general and expendable trust funds | (345,000) |
| Per Exhibit C-3 (GAAP basis) | \$ 3,370,015 |

TOWN OF LEE, NEW HAMPSHIRE
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DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2013, none of the government's bank balance of \$5,092,562 was exposed to custodial credit risk as follows:

Cash and cash equivalents reconciliation:

| | |
|--|---------------------|
| Cash per Statement of Net Position (Exhibit A) | \$ 5,817,996 |
| Cash per Statement of Fiduciary Net Position (Exhibit E-1) | 9,892 |
| Total cash and cash equivalents | <u>\$ 5,827,888</u> |

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, 2013, this Town had the following investments and maturities:

| | Fair Value | Less Than 1 Year | 1-5 Years | 6-10 Years | After 10 Years |
|--|---------------------|---------------------|-------------|-------------|----------------|
| Investments type: | | | | | |
| Certificates of Deposit | 3,279,606 | 3,279,606 | - | - | - |
| New Hampshire Public Deposit Investment Pool | 295,182 | - | - | - | - |
| Total fair value | <u>\$ 3,574,788</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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.

Investment reconciliation:

| | |
|---|---------------------|
| Investments per Statement of Net Position (Exhibit A) | \$ 3,506,489 |
| Investments per Statement of Fiduciary Net Position (Exhibit E-1) | 68,299 |
| Total investments | <u>\$ 3,574,788</u> |

NOTE 5 – RESTRICTED CASH AND INVESTMENTS

Certain Town assets are restricted for the following purposes:

| | |
|---------------------------------|---------------------|
| Cash and cash equivalents: | |
| Public library | \$ 4,795 |
| Expendable trust funds | 2,026,747 |
| Total cash and cash equivalents | <u>2,031,542</u> |
| Investments: | |
| Public library | 6,110 |
| Agricultural fund | 11,333 |
| Heritage commission | 11,327 |
| Conservation commission | 14,132 |
| Total investments | <u>42,902</u> |
| Total restricted assets | <u>\$ 2,074,444</u> |

TOWN OF LEE, NEW HAMPSHIRE
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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, 2013. The amount has been reduced by an allowance for an estimated uncollectible amount of \$92,000. Taxes receivable by year are as follows:

| | |
|---|---------------------|
| Property: | |
| Levy of 2013 | \$ 1,644,395 |
| Unredeemed (under tax lien): | |
| Levy of 2012 | 223,305 |
| Levy of 2011 | 196,849 |
| Levies of 2010 and prior | 39,607 |
| Land use change | 909 |
| Excavation | 89 |
| Less: allowance for estimated uncollectible taxes | <u>(92,000)</u> |
| Net taxes receivable | <u>\$ 2,013,154</u> |

NOTE 7 – OTHER RECEIVABLES

Receivables at June 30, 2013, 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, 2013 consisted of the following:

| | <u>Balance, beginning</u> | <u>Additions</u> | <u>Classification Transfer</u> | <u>Balance, ending</u> |
|--|-------------------------------|------------------|------------------------------------|----------------------------|
| At cost: | | | | |
| Not being depreciated: | | | | |
| Land | \$ 9,035,445 | \$ - | \$ - | \$ 9,035,445 |
| Construction in progress | 1,395,332 | - | (1,395,332) | - |
| Total capital assets not being depreciated | <u>10,430,777</u> | <u>-</u> | <u>(1,395,332)</u> | <u>9,035,445</u> |
| Being depreciated: | | | | |
| Buildings and building improvements | 2,373,160 | 28,774 | - | 2,401,934 |
| Equipment and vehicles | 1,661,273 | 53,393 | - | 1,714,666 |
| Infrastructure | 3,485,820 | 264,779 | 1,395,332 | 5,145,931 |
| Total capital assets being depreciated | <u>7,520,253</u> | <u>346,946</u> | <u>1,395,332</u> | <u>9,262,531</u> |
| Total all capital assets | <u>17,951,030</u> | <u>346,946</u> | <u>-</u> | <u>18,297,976</u> |
| Less accumulated depreciation: | | | | |
| Buildings and building improvements | (703,649) | (76,460) | - | (780,109) |
| Equipment and vehicles | (1,004,122) | (122,513) | - | (1,126,635) |
| Infrastructure | (2,880,746) | (119,152) | - | (2,999,898) |
| Total accumulated depreciation | <u>(4,588,517)</u> | <u>(318,125)</u> | <u>-</u> | <u>(4,906,642)</u> |
| Net book value, capital assets being depreciated | <u>2,931,736</u> | <u>28,821</u> | <u>1,395,332</u> | <u>4,355,889</u> |
| Net book value, all governmental activities capital assets | <u>\$ 13,362,513</u> | <u>\$ 28,821</u> | <u>\$ -</u> | <u>\$ 13,391,334</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 | \$ 121,181 |
| Public safety | 135,104 |
| Highways and streets | 26,437 |
| Sanitation | 31,964 |
| Culture and recreation | 3,439 |
| Total depreciation expense | <u>\$ 318,125</u> |

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of June 30, 2013 represent amounts owed from nonmajor governmental funds to the general fund as follows: recreation revolving (\$410); police forfeiture (\$320); and police detail revolving (\$48,362), for a total of \$49,092.

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.

Interfund Transfers - A transfer from the nonmajor permanent trust funds to the general fund for cemetery related care, in the amount of \$8,626 represents the only interfund transfer for the year ended June 30, 2013.

NOTE 10 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments at June 30, 2013 consist of the following:

| | |
|---|---------------------|
| Balance due to the Oyster River Cooperative School District | \$ 4,251,621 |
| Balance due to Strafford County | 545,187 |
| Various fees due to other governmental agencies | 3,523 |
| Total general fund | <u>\$ 4,800,331</u> |

NOTE 11 – DEFERRED INFLOWS OF RESOURCES

Deferred Inflow of Resources of \$1,379,334 in the General fund at June 30, 2013 consists of unavailable property taxes.

NOTE 12 – LONG-TERM LIABILITIES

Changes in the Town’s long-term liabilities consisted of the following for the year ended June 30, 2013:

| | Balance July 1, 2012 | Additions | Reductions | Balance June 30,2013 | Due Within One Year |
|----------------------------------|-------------------------|-------------|--------------------|-------------------------|------------------------|
| General obligation bonds payable | \$ 1,020,000 | \$ - | \$ (90,000) | \$ 930,000 | \$ 90,000 |
| Compensated absences | 107,164 | - | (1,249) | 105,915 | 3,986 |
| Total long-term liabilities | <u>\$ 1,127,164</u> | <u>\$ -</u> | <u>\$ (91,249)</u> | <u>\$ 1,035,915</u> | <u>\$ 93,986</u> |

TOWN OF LEE, NEW HAMPSHIRE
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Long term bonds are comprised of the following:

| | <u>Original Amount</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Outstanding at June 30, 2013</u> |
|-----------------------------------|----------------------------|-------------------|--------------------------|--------------------------|---|
| General obligation bonds payable: | | | | | |
| Fire department substation | \$ 1,200,000 | 2003 | 2023 | 3.7-4.4% | \$ 600,000 |
| Transfer station | \$ 600,000 | 2004 | 2024 | 4.57% | 330,000 |
| | | | | | <u>930,000</u> |
| Compensated absences payable: | | | | | |
| Vested sick leave | | | | | 22,242 |
| Accrued vacation leave | | | | | 83,673 |
| | | | | | <u>105,915</u> |
| Total | | | | | <u>\$ 1,035,915</u> |

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2013, including interest payments, are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|-------------------|-------------------|---------------------|
| 2014 | \$ 90,000 | \$ 37,260 | \$ 127,260 |
| 2015 | 90,000 | 33,840 | 123,840 |
| 2016 | 90,000 | 30,405 | 120,405 |
| 2017 | 90,000 | 26,610 | 116,610 |
| 2018 | 90,000 | 22,740 | 112,740 |
| 2019-2023 | 450,000 | 55,065 | 505,065 |
| 2024 | 30,000 | 600 | 30,600 |
| Totals | <u>\$ 930,000</u> | <u>\$ 206,520</u> | <u>\$ 1,136,520</u> |

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 – ENCUMBRANCES

Encumbrances outstanding at June 30, 2013 are as follows:

| | |
|------------------------|------------------|
| General fund: | |
| General government | \$ 17,149 |
| Culture and recreation | 15,253 |
| Total general fund | <u>\$ 32,402</u> |

NOTE 14 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at June 30, 2013 include the following:

| | |
|--|----------------------|
| Net investment in capital assets: | |
| Net property, buildings, and equipment | \$ 13,391,334 |
| Less: | |
| General obligation bonds payable | <u>(930,000)</u> |
| Total net investment in capital assets | 12,461,334 |
| Restricted for perpetual care | 152,177 |
| Restricted for library purposes | 10,879 |
| Unrestricted | 4,843,075 |
| Total net position | <u>\$ 17,467,465</u> |

TOWN OF LEE, NEW HAMPSHIRE
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NOTE 15 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at June 30, 2013 include the following:

| | | |
|----------------------------------|--------|----------------------------|
| Nonspendable: | | |
| Nonmajor fund: | | |
| Permanent - principal balance | \$ | 108,560 |
| Restricted: | | |
| Major fund: | | |
| General: | | |
| Library | \$ | 10,879 |
| Nonmajor fund: | | |
| Permanent fund - income balance | 43,617 | |
| Total restricted fund balance | | 54,496 |
| Committed: | | |
| Major fund: | | |
| General: | | |
| Expendable trust | \$ | 1,809,603 |
| Nonmajor funds: | | |
| Police forfeiture | 777 | |
| Police detail revolving | 19,364 | |
| Total committed fund balance | | 1,829,744 |
| Assigned: | | |
| Major fund: | | |
| General: | | |
| Encumbrances | | 32,402 |
| Unassigned: | | |
| Major fund: | | |
| General | | 3,099,461 |
| Total governmental fund balances | | <u><u>\$ 5,124,663</u></u> |

NOTE 16 – EMPLOYEE RETIREMENT PLAN

The Town participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing multiple-employer contributory pension plan and trust 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 plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provision for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

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. For fiscal year 2013, all employees except police officers and firefighters were required to contribute 7% of earnable compensation. The contribution rates were 11.55% for police officers and 11.80% for firefighters. The Town's contribution rates for 2013 for pension and medical subsidy were as follows; police officers 19.95%; firefighter, 22.89%; all other employees, 8.80%.

The contribution requirements for the Town of Lee for the fiscal years 2011, 2012, and 2013 were \$139,949, \$161,778, and \$160,335, respectively, which were paid in full in each year.

NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in preceding note, the Town provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the Town's agreements, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

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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 for a portion of the cost with the Town subsidizing the remaining costs. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.

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, 2013, 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 is 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 2013, the Town was a member of the Local Government Center Property-Liability Trust, LLC. This entity is considered a public entity risk pool, currently operating as common risk management and insurance program for member Towns and cities.

The Local Government Center Property-Liability Trust, LLC, is a Trust organized to provide certain property and liability insurance coverages to member Town's, cities, and other qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the Town shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability, and public officials' liability subject to a \$1,000 deductible.

Contributions paid in fiscal year ending June 30, 2013, to be recorded as an insurance expenditure totaled \$22,441. There were no unpaid contributions for the year ended June 30, 2013. The Town also paid \$13,249 for workers' compensation for the calendar year 2012. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

NOTE 19 – CONTINGENCIES

There are various legal claims and suits pending against the Town which arose in the normal course of the governments activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

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 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The following GASB pronouncements were implemented by the Town for the fiscal year ended June 30, 2013, which included the early implementation of GASB Statement No. 65. Only GASB Statement No. 63 and GASB Statement No. 65 impacted these financial statements:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34*, issued November 2010. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

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GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011. This Statement is intended to enhance the usefulness of the Codification of the Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, has an effective date of the Town beginning with its fiscal year ending June 30, 2014. This Statement is intended to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Because GASB Statement No. 65 is so closely related to GASB Statement No. 63, implementing both as of June 30, 2013 is recommended.

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. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, issued March 2012, will be effective for the Town beginning with its fiscal year ending June 30, 2014. This Statement is intended to resolve conflicting accounting and financial report and guidance that emerged from two recent standards, Statement No. 54 and Statement No. 62. These standards conflicted with existing guidance in Statements No. 10, 13, and 48.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012, will be effective for the Town beginning with its fiscal year ending June 30, 2014. **GASB Statement No. 68, *Accounting and Financial Reporting for Pensions***, issued in June 2012, will be effective for the Town beginning with its fiscal year ending June 30, 2015. The guidance contained in these two Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. They replace the requirements of Statements No. 27 and 50.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012, will be effective for the Town beginning with its fiscal year ending June 30, 2015. The guidance contained in this statement will change how governments calculate and report the costs and obligations associated with pensions in important ways. This replaces the requirements of Statements No. 27 and 50.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued in January 2013, will be effective for the Town beginning with its fiscal year ending June 30, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations that have been transferred or sold.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued in April 2013, will be effective for the Town beginning with the fiscal year ending June 30, 2015. The objective of this statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees.

NOTE 21 – 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 12, 2014, the date the June 30, 2013 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

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, 2013

| | Estimated | Actual | Variance Positive (Negative) |
|--|---------------------|---------------------|------------------------------------|
| Taxes: | | | |
| Property | \$ 2,658,719 | \$ 2,646,871 | \$ (11,848) |
| Land use change | 3,000 | 7,748 | 4,748 |
| Timber | 1,000 | 2,387 | 1,387 |
| Excavation | 300 | 109 | (191) |
| Payment in lieu of taxes | 3,260 | 2,237 | (1,023) |
| Interest and penalties on taxes | 80,000 | 97,113 | 17,113 |
| Total from taxes | <u>2,746,279</u> | <u>2,756,465</u> | <u>10,186</u> |
| Licenses, permits, and fees: | | | |
| Motor vehicle permit fees | 580,000 | 655,295 | 75,295 |
| Building permits | 12,000 | 11,355 | (645) |
| Other | 27,000 | 28,236 | 1,236 |
| Total from licenses, permits, and fees | <u>619,000</u> | <u>694,886</u> | <u>75,886</u> |
| Intergovernmental: | | | |
| State: | | | |
| Meals and rooms distribution | 193,637 | 193,606 | (31) |
| Highway block grant | 94,937 | 94,688 | (249) |
| Other | 2,500 | 2,439 | (61) |
| Federal: | | | |
| FEMA | 8,427 | 8,428 | 1 |
| Total from intergovernmental | <u>299,501</u> | <u>299,161</u> | <u>(340)</u> |
| Charges for services: | | | |
| Income from departments | 87,000 | 81,011 | (5,989) |
| Miscellaneous: | | | |
| Sale of municipal property | - | 37,606 | 37,606 |
| Interest on investments | 24,000 | 14,134 | (9,866) |
| Other | 41,000 | 54,261 | 13,261 |
| Total from miscellaneous | <u>65,000</u> | <u>106,001</u> | <u>41,001</u> |
| Other financing sources: | | | |
| Transfers in | 247,938 | 234,665 | (13,273) |
| Total revenues and other financing sources | 4,064,718 | <u>\$ 4,172,189</u> | <u>\$ 107,471</u> |
| Unassigned fund balance used to reduce tax rate | 23,140 | | |
| Total revenues, other financing sources, and use of fund balance | <u>\$ 4,087,858</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, 2013

| | Encumbered from Prior Year | Appropriations | Expenditures | Encumbered to Subsequent Year | Variance Positive (Negative) |
|------------------------------------|----------------------------------|------------------|------------------|-------------------------------------|------------------------------------|
| Current: | | | | | |
| General government: | | | | | |
| Executive | \$ - | \$ 107,565 | \$ 109,261 | \$ - | \$ (1,696) |
| Election and registration | - | 97,686 | 92,136 | - | 5,550 |
| Financial administration | 3,070 | 290,071 | 210,900 | 6,218 | 76,023 |
| Legal | - | 10,000 | 17,527 | - | (7,527) |
| Personnel administration | - | 688,513 | 598,000 | - | 90,513 |
| Planning and zoning | - | 44,458 | 51,082 | - | (6,624) |
| General government buildings | - | 157,405 | 143,994 | 973 | 12,438 |
| Cemeteries | 2,457 | 13,379 | 9,309 | 4,958 | 1,569 |
| Insurance, not otherwise allocated | 3,913 | 76,500 | 82,544 | - | (2,131) |
| Other | - | 75,103 | 42,144 | 5,000 | 27,959 |
| Total general government | <u>9,440</u> | <u>1,560,680</u> | <u>1,356,897</u> | <u>17,149</u> | <u>196,074</u> |
| Public safety: | | | | | |
| Police | - | 573,213 | 522,333 | - | 50,880 |
| Ambulance | - | 14,144 | 14,145 | - | (1) |
| Fire | 3,168 | 220,859 | 170,761 | - | 53,266 |
| Building inspection | - | 62,201 | 53,012 | - | 9,189 |
| Emergency management | - | 6,000 | 4,099 | - | 1,901 |
| Other | - | 17,065 | 16,712 | - | 353 |
| Total public safety | <u>3,168</u> | <u>893,482</u> | <u>781,062</u> | <u>-</u> | <u>115,588</u> |
| Highways and streets | <u>25,000</u> | <u>464,055</u> | <u>461,964</u> | <u>-</u> | <u>27,091</u> |
| Sanitation: | | | | | |
| Solid waste collection | - | 159,777 | 144,180 | - | 15,597 |
| Solid waste disposal | - | 137,250 | 128,049 | - | 9,201 |
| Total sanitation | <u>-</u> | <u>297,027</u> | <u>272,229</u> | <u>-</u> | <u>24,798</u> |
| Health: | | | | | |
| Pest control | - | 2,000 | 403 | - | 1,597 |
| Health agencies | - | 17,234 | 7,675 | - | 9,559 |
| Total health | <u>-</u> | <u>19,234</u> | <u>8,078</u> | <u>-</u> | <u>11,156</u> |
| Welfare: | | | | | |
| Administration | - | 6,897 | 6,684 | - | 213 |
| Intergovernmental welfare payments | - | - | 4,481 | - | (4,481) |
| Vendor payments | - | 18,000 | 9,335 | - | 8,665 |
| Total welfare | <u>-</u> | <u>24,897</u> | <u>20,500</u> | <u>-</u> | <u>4,397</u> |
| Culture and recreation: | | | | | |
| Parks and recreation | 4,113 | 43,140 | 33,860 | 15,253 | (1,860) |
| Library | - | 169,783 | 158,183 | - | 11,600 |
| Patriotic purposes | - | 500 | 539 | - | (39) |
| Other | - | 5,200 | 5,200 | - | - |
| Total culture and recreation | <u>4,113</u> | <u>218,623</u> | <u>197,782</u> | <u>15,253</u> | <u>9,701</u> |
| Conservation | <u>-</u> | <u>2,500</u> | <u>2,500</u> | <u>-</u> | <u>-</u> |
| Debt service: | | | | | |
| Principal of long-term debt | - | 90,000 | 90,000 | - | - |
| Interest on long-term debt | - | 40,218 | 40,218 | - | - |
| Total debt service | <u>-</u> | <u>130,218</u> | <u>130,218</u> | <u>-</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, 2013

| | Encumbered from Prior Year | Appropriations | Expenditures | Encumbered to Subsequent Year | Variance Positive (Negative) |
|---|----------------------------------|---------------------|---------------------|-------------------------------------|------------------------------------|
| Capital outlay | - | 123,297 | 128,797 | - | (5,500) |
| Other financing uses: | | | | | |
| Transfers out | - | 353,845 | 345,000 | - | 8,845 |
| Total appropriations, expenditures, other financing uses, and encumbrances | <u>\$ 41,721</u> | <u>\$ 4,087,858</u> | <u>\$ 3,705,027</u> | <u>\$ 32,402</u> | <u>\$ 392,150</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, 2013

| | | |
|--|----------------|----------------------------|
| Unassigned fund balance, beginning | | \$ 2,622,980 |
| Changes: | | |
| Unassigned fund balance used to reduce 2013 tax rate | | (23,140) |
| 2013 Budget summary: | | |
| Revenue surplus (Schedule 1) | \$ 107,471 | |
| Unexpended balance of appropriations (Schedule 2) | <u>392,150</u> | |
| 2013 Budget surplus | | <u>499,621</u> |
| Unassigned fund balance, ending | | <u><u>\$ 3,099,461</u></u> |

SCHEDULE 4
TOWN OF LEE, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2013

| | Special Revenue Funds | | | | | Total |
|--------------------------------------|-------------------------|----------------------|---|-------------------------------|-------------------|-------------------|
| | Recreation Revolving | Police Forfeiture | Police Public Relations Detail | Police Detail Revolving | Permanent Fund | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ 46,170 | \$ 28,290 | \$ 74,460 |
| Investments | 410 | 1,097 | - | - | 123,887 | 125,394 |
| Accounts receivable | - | - | - | 21,556 | - | 21,556 |
| Total assets | <u>\$ 410</u> | <u>\$ 1,097</u> | <u>\$ -</u> | <u>\$ 67,726</u> | <u>\$ 152,177</u> | <u>\$ 221,410</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Interfund payable | <u>\$ 410</u> | <u>\$ 320</u> | <u>-</u> | <u>\$ 48,362</u> | <u>\$ -</u> | <u>\$ 49,092</u> |
| Fund balances: | | | | | | |
| Nonspendable | - | - | - | - | 108,560 | 108,560 |
| Restricted | - | - | - | - | 43,617 | 43,617 |
| Committed | - | 777 | - | 19,364 | - | 20,141 |
| Total fund balances | <u>-</u> | <u>777</u> | <u>-</u> | <u>19,364</u> | <u>152,177</u> | <u>172,318</u> |
| Total liabilities and fund balances | <u>\$ 410</u> | <u>\$ 1,097</u> | <u>\$ -</u> | <u>\$ 67,726</u> | <u>\$ 152,177</u> | <u>\$ 221,410</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, 2013

| | Special Revenue Funds | | | | | Total |
|--|-------------------------|----------------------|---|-------------------------------|-------------------|-------------------|
| | Recreation Revolving | Police Forfeiture | Police Public Relations Detail | Police Detail Revolving | Permanent Fund | |
| Revenues: | | | | | | |
| Charges for services | \$ - | \$ - | \$ - | \$ 142,241 | \$ - | \$ 142,241 |
| Miscellaneous | 1,079 | 5 | - | 37 | 6,393 | 7,514 |
| Total revenues | <u>1,079</u> | <u>5</u> | <u>-</u> | <u>142,278</u> | <u>6,393</u> | <u>149,755</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Public safety | - | 320 | 3 | 136,055 | - | 136,378 |
| Culture and recreation | 9,034 | - | - | - | - | 9,034 |
| Total expenditures | <u>9,034</u> | <u>320</u> | <u>3</u> | <u>136,055</u> | <u>-</u> | <u>145,412</u> |
| Excess (deficiency) of revenues over (under) expenditures | (7,955) | (315) | (3) | 6,223 | 6,393 | 4,343 |
| Other financing uses: | | | | | | |
| Transfers out | - | - | - | - | (8,626) | (8,626) |
| Net change in fund balances | (7,955) | (315) | (3) | 6,223 | (2,233) | (4,283) |
| Fund balances, beginning | 7,955 | 1,092 | 3 | 13,141 | 154,410 | 176,601 |
| Fund balances, ending | <u>\$ -</u> | <u>\$ 777</u> | <u>\$ -</u> | <u>\$ 19,364</u> | <u>\$ 152,177</u> | <u>\$ 172,318</u> |