

TOWN OF IPSWICH, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2012

TOWN OF IPSWICH, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Ipswich, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ipswich, Massachusetts, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Ipswich, Massachusetts' management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ipswich, Massachusetts as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013 on our consideration of the Town of Ipswich, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by accounting principles generally accepted in the United States of America who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The additional information – municipal light enterprise fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied by us 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, based on our audit, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Powers & Sullivan LLC

February 12, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Ipswich, we offer readers of the Town of Ipswich's financial statements this narrative overview and analysis of the financial activities of the Town of Ipswich for the fiscal year ended June 30, 2012. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$74.6 million (net assets).
- Of this amount, 6.6% or \$5 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by \$131,000 during fiscal year 2012.
- At the close of the current fiscal year, the Town's governmental funds reported an ending total fund balance of \$8.8 million, an increase of approximately \$816,000 in comparison with the prior year. Approximately \$2.8 million represents unassigned fund balance of the general fund, while \$917,000 is assigned for fiscal year 2013 expenditures. Approximately \$4.4 million represents restricted fund balance in the nonmajor governmental funds, while the nonspendable portion totals approximately \$719,000.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$2.8 million or 6.5% of total general fund expenditures.
- The Town's total gross bonded debt decreased by \$2 million during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, finance, planning and development, public safety, education, public works, code enforcement, human services, library, and interest. The business-type activities include water, sewer and municipal light operations.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund as required supplementary information following the notes to the basic financial statements to demonstrate compliance with this budget.

Proprietary funds. The Town maintains only one type of proprietary fund.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water, sewer and municipal light operations, all of which are considered to be major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The other postemployment benefits fund is used to account for assets accumulated to provide funding for future other postemployment benefits (OPEB) liabilities. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

Notes to the basic 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

Governmental Activities:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Ipswich's assets exceeded liabilities for governmental activities by \$47.2 million at the close of fiscal year 2012.

	FY 2012 Governmental Activities	FY 2011 Governmental Activities
Assets:		
Current assets.....	\$ 12,941,163	\$ 12,112,590
Noncurrent assets (excluding capital).....	6,100,529	6,973,608
Capital assets.....	<u>65,026,307</u>	<u>65,340,788</u>
Total assets.....	<u>84,067,999</u>	<u>84,426,986</u>
Liabilities:		
Current liabilities (excluding debt).....	2,099,737	2,306,102
Noncurrent liabilities (excluding debt).....	6,073,321	4,549,570
Current debt.....	3,904,400	2,835,506
Noncurrent debt.....	<u>24,741,500</u>	<u>27,643,394</u>
Total liabilities.....	<u>36,818,958</u>	<u>37,334,572</u>
Net Assets:		
Capital assets net of related debt.....	43,224,371	42,704,610
Restricted.....	2,240,466	2,178,557
Unrestricted.....	<u>1,784,204</u>	<u>2,209,247</u>
Total net assets.....	<u>\$ 47,249,041</u>	<u>\$ 47,092,414</u>

Net assets of \$43.2 million (91%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets, \$2.2 million (5%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$1.8 million (4%) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities assets exceeded liabilities by \$47.2 million at June 30, 2012. The governmental activities net assets increased by \$157,000 in fiscal year 2012. Some of the primary reasons for this increase include the better than anticipated budgetary results of \$1.3 million, the timing difference between budgeted payments to reduce debt of \$2.8 million and recording depreciation on capital assets which is a non-budgeted expense of \$1.9 million, offset with the recognition of other postemployment benefit expenses of \$1.5 million.

The other postemployment benefit expense is required to be recognized under GASB Statement #45. In accordance with this pronouncement, the Town obtained an actuarial valuation of the Town's liability to pay other postemployment benefits to current employees and retirees. The GASB allows the liability, which totaled \$29.7 million, to be amortized over 30 years. There is currently no legal obligation to pre-fund this liability; the Town has opted to fund the majority of their other postemployment benefits on a pay-as-you go basis. As of June 30, 2012,

the Town has pre-funded \$786,000 of the liability which is reported as a major fund in the Fiduciary Fund financial statements. The Town is required to record the difference between the current year pay-as-you go cost and the amount pre-funded, and the current year actuarial determined expense as a liability in the full accrual financial statements. This difference totaled \$1.5 million for governmental activities for the fiscal year ended June 30, 2012.

	FY 2012 Governmental Activities	FY 2011 Governmental Activities
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 3,367,231	\$ 3,215,258
Operating grants and contributions.....	9,152,778	9,084,726
Capital grants and contributions.....	50,751	441,110
General revenues:		
Real estate and personal property taxes.....	30,155,553	28,985,867
Motor vehicle and other excise taxes.....	1,644,947	1,646,402
Hotel/motel tax.....	29,824	29,535
Meals tax.....	147,538	
Penalties and interest on taxes.....	189,894	165,263
Payments in lieu of taxes.....	479,881	406,483
Grants and contributions not restricted to specific programs.....	1,782,889	1,871,980
Unrestricted investment income.....	68,083	174,903
Gain on disposal of capital assets.....	-	6,469
Miscellaneous.....	55,405	58,477
Total revenues.....	<u>47,124,774</u>	<u>46,086,473</u>
Expenses:		
General government.....	1,185,819	1,445,325
Finance.....	1,302,728	1,264,344
Planning and development.....	464,072	387,163
Public safety.....	6,081,954	5,683,097
Education.....	30,666,362	30,114,883
Public works.....	4,027,612	4,374,921
Code enforcement.....	634,278	629,729
Human services.....	612,277	650,229
Library.....	775,276	761,816
Interest.....	1,217,769	1,278,541
Total expenses.....	<u>46,968,147</u>	<u>46,590,048</u>
Change in net assets.....	<u>\$ 156,627</u>	<u>\$ (503,575)</u>

Governmental capital grants and contributions decreased by \$390,000 during fiscal year 2012. These capital grants relate primarily to the state's Chapter 90 Highway program. Decreases in general government expenses were primarily related to one time gift accounts located within the Town's special revenue funds expended in the prior year. Increases in education expenses were budgeted in the general fund.

Business-type Activities

For the Town's business-type activities, assets exceeded liabilities by \$27.4 million at the close of fiscal year 2012.

	FY 2012 Business-type Activities	FY 2011 Business-type Activities
	<u> </u>	<u> </u>
Assets:		
Current assets.....	\$ 7,657,619	\$ 9,198,736
Noncurrent assets (excluding capital).....	1,440,352	1,386,759
Capital assets.....	<u>38,661,115</u>	<u>36,232,938</u>
Total assets.....	<u>47,759,086</u>	<u>46,818,433</u>
Liabilities:		
Current liabilities (excluding debt).....	2,714,534	3,155,817
Noncurrent liabilities (excluding debt).....	493,617	532,158
Current debt.....	1,083,282	2,357,292
Noncurrent debt.....	<u>13,969,952</u>	<u>13,103,206</u>
Total liabilities.....	<u>18,261,385</u>	<u>19,148,473</u>
Net Assets:		
Capital assets net of related debt.....	22,143,878	20,772,440
Restricted.....	2,060,832	2,071,378
Unrestricted.....	<u>3,177,632</u>	<u>4,826,142</u>
Total net assets.....	<u>\$ 27,382,342</u>	<u>\$ 27,669,960</u>

Business-type net assets of \$22 million (81%) represent investments in capital assets net of related debt. Net assets of \$2.1 million (8%) are restricted for the Light Department's Rate Stabilization and Capital Depreciation funds. The remaining \$3.2 million (11%) is available to be used for the ongoing operation of the Town's water, sewer and municipal light departments.

	FY 2012 Business-type Activities	FY 2011 Business-type Activities
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 17,658,688	\$ 18,251,152
Operating grants and contributions.....	<u>71,495</u>	<u>92,555</u>
Total revenues.....	<u>17,730,183</u>	<u>18,343,707</u>
Expenses:		
Water enterprise.....	2,634,612	2,543,646
Sewer enterprise.....	1,578,067	1,525,108
Municipal light enterprise.....	<u>13,805,122</u>	<u>14,141,807</u>
Total expenses.....	<u>18,017,801</u>	<u>18,210,561</u>
Change in net assets.....	<u>\$ (287,618)</u>	<u>\$ 133,146</u>

Cumulatively, net assets of the business-type activities decreased by \$288,000. The majority of this decrease (\$319,000) relates to the Town's water enterprise fund, where charges for services were down by approximately \$135,000 and depreciation expense was up by approximately \$102,000. The minimal overall change in net assets of the business-type activities is representative of the Town's system to recover 100% of the cost of providing these services through the rate setting process.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8.8 million, an increase of \$816,000 from the prior year.

The general fund is the Town's chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$2.8 million, while \$917,000 has been assigned for the fiscal year 2013 operating budget. The total general fund balance of \$3.7 million increased by \$646,000 during fiscal year 2012. This increase is primarily due to better than expected results in the operating budget. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 6.5% of total general fund expenditures, while total fund balance represents 8.7% of that same amount.

Nonmajor governmental funds reported an increase of \$170,000 which was comprised of capital project funds, special revenue funds and permanent funds.

General Fund Budgetary Highlights

The increase of \$345,000 between the original budget and the final amended budget consisted of \$32,000 of transfers from insurance proceeds and waterways and \$233,000 appropriated of available funds (free cash) voted at the fall and spring Special Town Meetings. The original available general fund budget consisted of \$39.2 million in departmental appropriations and \$669,000 in amounts carried forward from the fiscal year 2011 budget.

Total revenues came in over budget by approximately \$889,000, and actual expenditures were under budget by \$386,000.

Capital Asset and Debt Administration

During the current fiscal year the Town expended \$1.6 million on governmental activities capital assets consisting mainly of \$804,000 for road construction and \$345,000 for machinery and equipment. Business-type activities expended \$4.2 million for capital assets. Of this amount, the water enterprise fund expended \$1.7 million for infrastructure and equipment, the sewer enterprise fund expended \$1.2 million which was mainly for infrastructure, and the electric light department expended \$1.2 million mainly for distribution upgrades.

The Town's governmental funds had total bonded debt outstanding of \$27.6 million at the end of the current fiscal year. Of this amount, \$19.3 million is related to school projects, \$5.4 million relates to land purchases, \$322,000 relates to library renovations, \$490,000 relates to the purchase of equipment, and \$2.1 million relates to other capital related projects. The enterprise funds had \$15.1 million of debt outstanding at the end of the current year. Of this amount, \$3 million related to water, \$4.3 million related to sewer, and \$7.8 million related to electric light.

In the current year, the Town issued long term MWPAT debt totaling \$2 million in the sewer enterprise fund.

Please refer to the notes to the basic financial statements for further discussion of the capital asset and debt activity.

Economic Factors and Next Year's Budgets and Rates

The Annual Town Meeting approved the Town's Operating Budget for fiscal year 2013 in the amount of \$15,110,173 and the School's Operating Budget for \$21,819,907. Town Meeting approved \$2,535,613 for the High School/Middle School Capital Project debt service for fiscal year 2013. Also approved at Town Meeting was an amendment to the Town's Operating Budget in the amount of \$61,214 from the Waterways Improvement Fund for the Harbormaster's budget. An amendment of the School's Operating Budget for FY 2012 was approved which increased the budget by \$ 28,799 from the Insurance Reimbursement Fund.

The Water and Sewer budgets for fiscal year 2013 were approved at the Annual Town Meeting for a total of \$4,851,196. Of this total, the Water budget is \$2,922,076, and the Sewer Budget is \$1,929,120. The Water budget will be offset in part by a water surplus of \$320,328 and the Sewer budget will be offset in part by a sewer surplus of \$366,651. The balance of said appropriations will be met by revenues of each department during fiscal year 2013.

The Annual Town Meeting approved an appropriation of \$272,957 as Ipswich's share of the operating and debt service expenses of the Whittier Regional Vocational Technical High School for fiscal year 2013.

Town Meeting appropriated \$442,076 under the provisions of Chapter 90 of the General Laws.

Under Article 10 of the Annual Town Meeting, \$525,000 was appropriated for the purchase of a fire pumper. With the approval of the Board of Selectmen, this purchase will be funded by issuing bonds or serial notes under the provisions of Massachusetts General Laws Chapter 44, Section 7 (9).

Under Article 22 of the Annual Town Meeting, \$2,400,000 was appropriated for the purchase of equipment for the construction and rehabilitation of the wastewater facilities including plant head works, septage receiving area, clarifiers, sludge holding tank and digester, at the Wastewater Treatment Plant, including the payment of costs incidental or related thereto; and to meet this appropriation by authorizing the Treasurer, with the approval of the Board of Wastewater Commissioners, to issue bonds or serial notes under the provisions of Chapter 44, Section 8 of the General Laws.

Over the course of several years, Town Meeting has appropriated \$900,000 from free cash to fund the Feoffee's legal issues. Approximately \$760,000 will be reimbursed to the town when the annual gift to the schools is reinstated. As of August 9, 2012, the master deed creating the Condominium at Little Neck was recorded and the individual land sales were also recorded at the same time. The first payment of \$800,340 was received by the schools on September 12, 2012 as well as \$575,000 as a partial reimbursement to the town for legal expenses incurred. A citizen group's appeal to the court to stop the sale is still pending. The School Committee has indicated that the funds already received will not be spent until the appeal process is concluded.

Town Manager, Robert Markel, retired during the fiscal year and Roberta "Robin" Crosbie was hired as our new Town Manager as of August 1, 2012. Ms. Crosbie has more than 25 years of local government management experience. She served as the first Town Manager in Longmeadow, Massachusetts for seven years and the Town Administrator of Hadley, Massachusetts for sixteen years. Earlier in her career she served as the Administrative Assistant to the Board of Selectmen in Deerfield, Massachusetts. Ms. Crosbie started her career in Thornton, Colorado as a Community Relations Coordinator.

She is a member of the International City and County Management Association (ICMA), the Massachusetts Municipal Management Association (MMMA), and was a past member of its Board of Directors. She has been an active member of civic and community organizations.

She holds a Bachelor of Fine Arts Degree from East Carolina University, a Master of Public Administration Degree from the University of Colorado, and is an ICMA Credentialed Manager.

Requests for Information

This financial report is designed to provide a general overview of the Town of Ipswich's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 25 Green Street, Ipswich, Massachusetts 01938.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 6,803,416	\$ 2,662,504	\$ 9,465,920
Restricted cash and cash equivalents.....	-	522,731	522,731
Investments.....	2,641,707	-	2,641,707
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	582,434	-	582,434
Tax and utility liens.....	666,137	-	666,137
Motor vehicle and other excise taxes.....	92,833	-	92,833
User fees.....	-	2,264,409	2,264,409
Departmental and other.....	39,698	-	39,698
Special assessments.....	-	6,101	6,101
Intergovernmental.....	2,020,749	138,250	2,158,999
Loans.....	66,600	-	66,600
Tax foreclosures.....	27,589	-	27,589
Purchased power working capital and prepayments.....	-	1,772,057	1,772,057
Deferred charges.....	-	132,697	132,697
Inventory.....	-	158,870	158,870
NONCURRENT:			
Restricted assets:			
Cash and cash equivalents.....	-	1,233,208	1,233,208
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	6,008,632	176,120	6,184,752
Special assessments.....	-	31,024	31,024
Loans.....	91,897	-	91,897
Capital Assets:			
Nondepreciable.....	18,385,653	2,379,012	20,764,665
Depreciable.....	46,640,654	36,282,103	82,922,757
TOTAL ASSETS.....	84,067,999	47,759,086	131,827,085
LIABILITIES			
CURRENT:			
Warrants payable.....	366,574	1,617,660	1,984,234
Accrued payroll.....	145,022	56,155	201,177
Accrued interest.....	148,977	69,057	218,034
Abandoned property.....	81,012	-	81,012
Other liabilities.....	449,802	852,403	1,302,205
Compensated absences.....	908,350	119,259	1,027,609
Notes payable.....	1,000,000	2,115,359	3,115,359
Bonds payable.....	2,904,400	1,083,282	3,987,682
NONCURRENT:			
Customer deposits payable.....	-	89,310	89,310
Compensated absences.....	388,931	150,632	539,563
Other postemployment benefits.....	5,684,390	253,675	5,938,065
Bonds payable.....	24,741,500	13,969,952	38,711,452
TOTAL LIABILITIES.....	36,818,958	20,376,744	57,195,702
NET ASSETS			
Invested in capital assets, net of related debt.....	43,224,371	22,143,878	65,368,249
Restricted for:			
Rate stabilization.....	-	1,570,398	1,570,398
Depreciation.....	-	490,434	490,434
Affordable Housing.....	255,638	-	255,638
Loans.....	158,497	-	158,497
Permanent funds:			
Expendable.....	779,806	-	779,806
Nonexpendable.....	718,562	-	718,562
Gifts and grants.....	327,963	-	327,963
Unrestricted.....	1,784,204	3,177,632	4,961,836
TOTAL NET ASSETS.....	\$ 47,249,041	\$ 27,382,342	\$ 74,631,383

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 1,185,819	\$ 595,182	\$ 78,159	\$ -	\$ (512,478)
Finance.....	1,302,728	113	-	-	(1,302,615)
Planning and development.....	464,072	59,116	39,998	-	(364,958)
Public safety.....	6,081,954	482,674	95,814	-	(5,503,466)
Education.....	30,666,362	1,632,046	8,204,697	-	(20,829,619)
Public works.....	4,027,612	200,666	46,786	-	(3,780,160)
Code enforcement.....	634,278	317,602	10,000	-	(306,676)
Human services.....	612,277	71,184	131,460	50,751	(358,882)
Library.....	775,276	8,648	14,440	-	(752,188)
Interest.....	1,217,769	-	531,424	-	(686,345)
Total Governmental Activities.....	46,968,147	3,367,231	9,152,778	50,751	(34,397,387)
<i>Business-Type Activities:</i>					
Water.....	2,634,612	2,291,354	24,349	-	(318,909)
Sewer.....	1,578,067	1,583,303	23,520	-	28,756
Municipal Light.....	13,805,122	13,784,031	23,626	-	2,535
Total Business-Type Activities.....	18,017,801	17,658,688	71,495	-	(287,618)
Total Primary Government.....	\$ 64,985,948	\$ 21,025,919	\$ 9,224,273	\$ 50,751	\$ (34,685,005)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (34,397,387)	\$ (287,618)	\$ (34,685,005)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	30,155,553	-	30,155,553
Motor vehicle and other excise taxes.....	1,644,947	-	1,644,947
Hotel/motel tax.....	29,824	-	29,824
Meals tax.....	147,538	-	147,538
Penalties and interest on taxes.....	189,894	-	189,894
Payments in lieu of taxes.....	479,881	-	479,881
Grants and contributions not restricted to specific programs.....	1,782,889	-	1,782,889
Unrestricted investment income.....	68,083	-	68,083
Miscellaneous.....	55,405	-	55,405
Total general revenues.....	34,554,014	-	34,554,014
Change in net assets.....	156,627	(287,618)	(130,991)
<i>Net Assets:</i>			
Beginning of year.....	47,092,414	27,669,960	74,762,374
End of year.....	\$ <u>47,249,041</u>	\$ <u>27,382,342</u>	\$ <u>74,631,383</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents..... \$	4,355,536	\$ 2,447,880	\$ 6,803,416
Investments.....	-	2,641,707	2,641,707
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	582,434	-	582,434
Tax liens.....	666,137	-	666,137
Motor vehicle and other excise taxes.....	92,833	-	92,833
Departmental and other.....	39,698	-	39,698
Intergovernmental.....	6,891,992	1,137,389	8,029,381
Loans.....	-	158,497	158,497
Tax foreclosures.....	27,589	-	27,589
TOTAL ASSETS..... \$	<u>12,656,219</u>	<u>\$ 6,385,473</u>	<u>\$ 19,041,692</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable..... \$	334,548	\$ 32,026	\$ 366,574
Accrued payroll.....	123,536	21,486	145,022
Abandoned property.....	81,012	-	81,012
Other liabilities.....	449,502	300	449,802
Deferred revenues.....	7,996,216	241,672	8,237,888
Notes payable.....	-	1,000,000	1,000,000
TOTAL LIABILITIES.....	<u>8,984,814</u>	<u>1,295,484</u>	<u>10,280,298</u>
 FUND BALANCES:			
Nonspendable.....	-	718,562	718,562
Restricted.....	-	4,371,427	4,371,427
Assigned.....	917,293	-	917,293
Unassigned.....	2,754,112	-	2,754,112
TOTAL FUND BALANCES.....	<u>3,671,405</u>	<u>5,089,989</u>	<u>8,761,394</u>
TOTAL LIABILITIES AND FUND BALANCES..... \$	<u>12,656,219</u>	<u>\$ 6,385,473</u>	<u>\$ 19,041,692</u>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2012

Total governmental fund balances.....	\$	8,761,394
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		65,026,307
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		8,237,888
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(148,977)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(27,645,900)	
Compensated absences.....	(1,297,281)	
Other postemployment benefits.....	<u>(5,684,390)</u>	
Net effect of reporting long-term liabilities.....		<u>(34,627,571)</u>
Net assets of governmental activities.....	\$	<u>47,249,041</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 30,052,564	\$ -	\$ 30,052,564
Tax liens.....	149,755	-	149,755
Motor vehicle and other excise taxes.....	1,654,543	20,910	1,675,453
Charges for services.....	34,982	1,984,687	2,019,669
Hotel/motel tax.....	-	29,824	29,824
Meals tax.....	147,538	-	147,538
Penalties and interest on taxes.....	189,894	-	189,894
Payments in lieu of taxes.....	479,881	-	479,881
Licenses and permits.....	559,549	79,679	639,228
Fines and forfeitures.....	45,908	-	45,908
Intergovernmental.....	8,835,808	3,407,647	12,243,455
Departmental and other.....	343,766	49,175	392,941
Contributions.....	-	257,280	257,280
Investment income.....	50,230	17,853	68,083
Other.....	244,592	108,187	352,779
TOTAL REVENUES.....	42,789,010	5,955,242	48,744,252
EXPENDITURES:			
Current:			
General government.....	647,642	179,044	826,686
Finance.....	1,008,697	-	1,008,697
Public safety.....	4,071,005	478,835	4,549,840
Education.....	20,931,109	3,923,499	24,854,608
Public works.....	3,715,207	835,364	4,550,571
Code enforcement.....	406,780	2,200	408,980
Planning and development.....	251,853	136,484	388,337
Human services.....	380,914	117,832	498,746
Library.....	546,018	23,350	569,368
Pension benefits.....	3,035,000	-	3,035,000
Property and liability insurance.....	190,118	-	190,118
Employee benefits.....	2,174,201	-	2,174,201
Other.....	116,110	-	116,110
State and county charges.....	661,312	-	661,312
Debt service:			
Principal.....	2,833,000	-	2,833,000
Interest.....	1,262,193	-	1,262,193
TOTAL EXPENDITURES.....	42,231,159	5,696,608	47,927,767
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	557,851	258,634	816,485
OTHER FINANCING SOURCES (USES):			
Transfers in.....	88,389	-	88,389
Transfers out.....	-	(88,389)	(88,389)
TOTAL OTHER FINANCING SOURCES (USES).....	88,389	(88,389)	-
NET CHANGE IN FUND BALANCES.....	646,240	170,245	816,485
FUND BALANCES AT BEGINNING OF YEAR.....	3,025,165	4,919,744	7,944,909
FUND BALANCES AT END OF YEAR.....	\$ 3,671,405	\$ 5,089,989	\$ 8,761,394

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds.....	\$	816,485
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....		1,561,045
Depreciation expense.....		<u>(1,875,526)</u>
Net effect of reporting capital assets.....		(314,481)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(1,669,229)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Debt service principal payments.....		2,833,000
<p>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 the governmental funds.</p>		
Net change in compensated absences accrual.....		(32,971)
Net change in other postemployment benefit liability.....		(1,520,601)
Net change in accrued interest on long-term debt.....		<u>44,424</u>
Net effect of recording long-term liabilities.....		<u>(1,509,148)</u>
Change in net assets of governmental activities.....	\$	<u><u>156,627</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 954,777	\$ 1,244,950	\$ 462,777	\$ 2,662,504
Restricted cash and cash equivalents.....	-	-	522,731	522,731
Receivables, net of allowance for uncollectibles:				
User fees.....	444,659	168,534	1,651,216	2,264,409
Special assessments.....	-	6,101	-	6,101
Intergovernmental.....	95,210	43,040	-	138,250
Purchased power working capital and prepayments.....	-	-	1,772,057	1,772,057
Deferred charges.....	-	-	132,697	132,697
Inventory.....	-	-	158,870	158,870
Total current assets.....	1,494,646	1,462,625	4,700,348	7,657,619
NONCURRENT:				
Restricted cash and cash equivalents.....	-	-	1,233,208	1,233,208
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	-	176,120	-	176,120
Special assessments.....	-	31,024	-	31,024
Capital assets, net of accumulated depreciation.....				
Nondepreciable.....	1,484,129	871,907	22,976	2,379,012
Depreciable.....	13,113,942	8,606,028	14,562,133	36,282,103
Total noncurrent assets.....	14,598,071	9,685,079	15,818,317	40,101,467
TOTAL ASSETS.....	16,092,717	11,147,704	20,518,665	47,759,086
LIABILITIES				
CURRENT:				
Warrants payable.....	22,272	5,152	1,590,236	1,617,660
Accrued payroll.....	20,573	9,584	25,998	56,155
Accrued interest.....	19,910	20,845	28,302	69,057
Customer deposits payable.....	-	-	89,310	89,310
Other liabilities.....	-	-	852,403	852,403
Compensated absences.....	72,114	36,045	11,100	119,259
Notes payable.....	1,685,359	430,000	-	2,115,359
Bonds payable.....	312,000	286,282	485,000	1,083,282
Total current liabilities.....	2,132,228	787,908	3,082,349	6,002,485
NONCURRENT:				
Compensated absences.....	38,285	12,104	100,243	150,632
Other postemployment benefits.....	134,100	69,935	49,640	253,675
Bonds payable.....	2,615,000	4,024,952	7,330,000	13,969,952
Total noncurrent liabilities.....	2,787,385	4,106,991	7,479,883	14,374,259
TOTAL LIABILITIES.....	4,919,613	4,894,899	10,562,232	20,376,744
NET ASSETS				
Invested in capital assets, net of related debt.....	10,233,900	5,139,869	6,770,109	22,143,878
Restricted for:				
Rate stabilization.....	-	-	1,570,398	1,570,398
Depreciation.....	-	-	490,434	490,434
Unrestricted.....	939,204	1,112,936	1,125,492	3,177,632
TOTAL NET ASSETS.....	\$ 11,173,104	\$ 6,252,805	\$ 9,956,433	\$ 27,382,342

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
OPERATING REVENUES:				
Charges for services	\$ 2,291,354	\$ 1,580,579	\$ 13,671,207	\$ 17,543,140
Other.....	-	2,724	112,824	115,548
TOTAL OPERATING REVENUES	2,291,354	1,583,303	13,784,031	17,658,688
OPERATING EXPENSES:				
Cost of services and administration	1,944,410	1,113,928	12,649,069	15,707,407
Depreciation.....	567,476	352,463	846,411	1,766,350
TOTAL OPERATING EXPENSES	2,511,886	1,466,391	13,495,480	17,473,757
OPERATING INCOME (LOSS).....	(220,532)	116,912	288,551	184,931
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	24,349	4,713	23,626	52,688
Interest expense.....	(122,726)	(111,676)	(309,642)	(544,044)
Intergovernmental.....	-	18,807	-	18,807
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(98,377)	(88,156)	(286,016)	(472,549)
CHANGE IN NET ASSETS.....	(318,909)	28,756	2,535	(287,618)
NET ASSETS AT BEGINNING OF YEAR.....	11,492,013	6,224,049	9,953,898	27,669,960
NET ASSETS AT END OF YEAR.....	\$ 11,173,104	\$ 6,252,805	\$ 9,956,433	\$ 27,382,342

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from customers and users.....	\$ 2,356,572	\$ 1,606,195	\$ 13,306,576	\$ 17,269,343
Payments to vendors.....	(1,090,983)	(618,581)	(10,547,421)	(12,256,985)
Payments to employees.....	(864,343)	(482,078)	(1,338,656)	(2,685,077)
NET CASH FROM OPERATING ACTIVITIES.....	401,246	505,536	1,420,499	2,327,281
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Proceeds from the issuance of bonds and notes.....	1,685,359	2,382,534	-	4,067,893
Intergovernmental grants.....	-	330,777	-	330,777
Acquisition and construction of capital assets.....	(1,727,271)	(1,249,513)	(1,217,743)	(4,194,527)
Principal payments on bonds and notes.....	(422,210)	(1,545,798)	(487,000)	(2,455,008)
Interest expense.....	(124,329)	(103,909)	(306,992)	(535,230)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(588,451)	(185,909)	(2,011,735)	(2,786,095)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Investment income.....	24,349	4,713	23,626	52,688
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(162,856)	324,340	(567,610)	(406,126)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,117,633	920,610	2,786,326	4,824,569
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 954,777	\$ 1,244,950	\$ 2,218,716	\$ 4,418,443
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>				
Operating income (loss).....	\$ (220,532)	\$ 116,912	\$ 288,551	\$ 184,931
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	567,476	352,463	846,411	1,766,350
Changes in assets and liabilities:				
User fees.....	65,218	12,667	(191,859)	(113,974)
Special assessments.....	-	10,225	-	10,225
Purchased power working capital and prepayments.....	-	-	1,018,684	1,018,684
Deferred charges.....	-	-	(29,401)	(29,401)
Inventory.....	-	-	(20,896)	(20,896)
Warrants payable.....	(36,294)	4,133	(167,428)	(199,589)
Accrued payroll.....	7,698	2,821	9,052	19,571
Customer deposits payable and other liabilities.....	-	-	(285,596)	(285,596)
Environmental remediation.....	-	-	(33,000)	(33,000)
Accrued compensated absences.....	12,689	2,657	11,645	26,991
Other postemployment benefits.....	4,991	3,658	(25,664)	(17,015)
Total adjustments.....	621,778	388,624	1,131,948	2,142,350
NET CASH FROM OPERATING ACTIVITIES.....	\$ 401,246	\$ 505,536	\$ 1,420,499	\$ 2,327,281
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>				
Intergovernmental subsidy of debt service.....	\$ -	\$ 49,544	\$ -	\$ 49,544

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Other Postemployment Benefit Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 786,000	\$ 256,558	\$ 307,278
LIABILITIES			
Warrants payable.....	-	-	1,565
Liabilities due depositors.....	-	-	305,713
TOTAL LIABILITIES.....	-	-	307,278
NET ASSETS			
Held in trust for OPEB benefits and other purposes.....	\$ 786,000	\$ 256,558	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Other Postemployment Benefit Fund</u>	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>		
Contributions:		
Employer contributions.....	\$ 510,678	\$ -
Net investment income (loss):		
Investment income.....	22,528	7,537
TOTAL ADDITIONS.....	533,206	7,537
<u>DEDUCTIONS:</u>		
Educational scholarships.....	-	8,000
CHANGE IN NET ASSETS.....	533,206	(463)
NET ASSETS AT BEGINNING OF YEAR.....	252,794	257,021
NET ASSETS AT END OF YEAR.....	\$ 786,000	\$ 256,558

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Ipswich, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town of Ipswich is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. It has been determined that there are no component units that require inclusion in the basic financial statements.

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

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *Nonmajor Governmental Funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for the Town's water activities.

The *sewer enterprise fund* is used to account for the Town's sewer activities.

The *municipal light enterprise fund* is used to account for the Town's municipal light activities.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *other postemployment benefit trust fund* is used to accumulate resources to provide funding for future other postemployment benefits (OPEB) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allow the trustees to authorize spending of the realized investment earnings. The Town maintains one private purpose trust fund for scholarships.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

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

Real estate tax liens are processed in the first quarter after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle and Other Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value. Boat excise taxes are assessed annually for each boat registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of boats

registered and the fair value of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and Sewer liens are processed once a year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of amounts due from police and fire details and are recorded as receivables in the fiscal year accrued.

Meals Tax

The Town levies 0.75% for the sale of restaurant meals in accordance with Massachusetts General Law, Chapter 64L, Section 2. The tax is paid by the operator of each establishment to the State Commissioner of Revenue, who in turn pays the tax back to the Town in quarterly distributions. The meals tax receivable is categorized as an intergovernmental receivable.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories, other than those associated with the electric light enterprise fund, are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

Inventories of the electric light enterprise fund consist of materials, supplies and fuel oil inventory and are carried at the lower of cost or market, determined by the first-in, first-out method.

G. Restricted Assets

Government-Wide and Fund Financial Statements

Certain assets (customer deposits) of the electric light enterprise fund are classified as restricted as these amounts are available to the Department only if a customer account is terminated with an outstanding balance.

H. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, when actual historical cost could not be determined. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis, in accordance with Massachusetts General Laws (MGL). The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	40
Machinery and equipment.....	5
Vehicles.....	10
Infrastructure.....	50 - 75

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

I. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the

governmental activities and business-type activities are reported in the statement of net assets as “internal balances”.

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as “Transfers, net”.

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. The change in deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

L. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net Assets reported as “invested in capital assets, net of related debt” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state’s school building program is not considered to be capital related debt.

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Rate stabilization” represents amounts restricted for the purpose of minimizing exposure to rate fluctuations in the municipal light industry. The fund may be also used to help the Municipal Light Department maintain a competitive position in the marketplace or for other unexpected costs.

“Depreciation” represents amounts restricted pursuant to provisions of the MGL. Cash, in an amount equivalent to the annual depreciation expense, is transferred from unrestricted municipal light funds to the depreciation fund. Interest earned on the balance of the fund remains in the fund. The depreciation fund may be used for capital improvements and upgrades to utility plant assets, nuclear decommissioning costs, the costs of contractual commitments, the costs of related debt service and deferred costs and debt services costs related to such commitments, which the Municipal Light Commission determine are above market value.

“Affordable housing” represents amounts restricted for a fund (established in accordance with MGL, Chapter 44, Section 53E ½) used to account for activities related to the creation and preservation of affordable housing for the benefit of low to moderate income households.

“Loans” represents community development outstanding loans receivable balances for the first time homebuyer program.

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings that support governmental programs.

“Permanent funds - nonexendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Gifts and grants” represents restrictions placed on assets from outside parties, and consist primarily of gifts and federal and state grants.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town Meeting is the highest level of decision making authority that can, by Town Meeting vote, commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Town’s by-laws authorize the Finance Director to assign fund balance. Assignments generally only exist temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from special revenue and capital project funds is legally assigned to the general fund unless otherwise directed by MGL.

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

P. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets

and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

Q. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Ipswich's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$11,883,959 and the bank balance totaled \$13,336,021. Of the bank balance, \$1,344,281 was covered by Federal Depository Insurance, \$10,047,081 was covered by the Depositors Insurance Fund, and \$1,944,659 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments of the Other Postemployment Benefit (OPEB) Fund

At June 30, 2012 the OPEB Fund has investments of \$786,000. The investments are comprised of \$1,237 in money market mutual funds, \$11,709 of equity securities, \$19,982 of corporate bonds, \$257,001 of bond mutual funds and \$496,071 of mutual funds which are included in the investment table below.

Investments

As of June 30, 2012, the Town had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt Securities:</u>				
U.S. Treasury Notes.....	\$ 57,081	\$ -	\$ -	\$ 57,081
Government Sponsored Enterprises.....	782,680	-	782,680	-
Corporate Bonds.....	399,517	20,372	344,172	34,973
Bond Mutual Funds.....	295,796	295,796	-	-
Total Debt Securities.....	1,535,074	\$ 316,168	\$ 1,126,852	\$ 92,054
<u>Other Investments:</u>				
Equity Securities.....	11,709			
Money Market Mutual Funds.....	154,842			
Mutual Funds.....	1,094,924			
MMDT.....	532,894			
Total Investments.....	\$ 3,329,443			

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months. Credit ratings associated with the Town’s investment in MMDT ranged from A1/P1 to unrated; with approximately 98% rated A1/P1 and approximately 2% rated A2/P2.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Town’s investments in debt securities; \$57,081 in U.S. Treasury Notes, \$782,680 in Government Sponsored Enterprises, and \$399,517 in corporate bonds are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and held by the counterparty.

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town has not adopted formal policies related to Credit Risk.

Investment Type	Fair Value	Quality Rating			
		AAA	AA	A	Unrated
<u>Debt Securities:</u>					
Government Sponsored Enterprises.....	\$ 782,680	\$ 782,680	\$ -	\$ -	\$ -
Corporate Bonds.....	399,517	34,973	26,091	338,453	-
Bond Mutual Funds.....	295,796	-	-	-	295,796
Total Debt Securities.....	\$ <u>1,477,993</u>	\$ <u>817,653</u>	\$ <u>26,091</u>	\$ <u>338,453</u>	\$ <u>295,796</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town’s investment in a single issuer. The Town does not have a formal investment policy addressing concentration of credit risk. As of June 30, 2012, the Town’s investments with a single issuer that represents 5 percent or more of the Town’s total investments are as follows:

Issuer	Fair Value	Percentage of Total Investments
iShares Russell 3000 Index FD.....	\$ 144,702	5.48%
Federal Home Loan Mortgage Corporation.....	155,972	5.90%
Federal National Mortgage Association.....	626,708	23.72%

NOTE 3 – RECEIVABLES

At June 30, 2012, receivables for the individual major governmental funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes....	\$ 583,838	\$ (1,404)	\$ 582,434
Tax liens.....	666,137	-	666,137
Motor vehicle and other excise taxes.....	108,648	(15,815)	92,833
Departmental and other.....	39,698	-	39,698
Intergovernmental.....	8,029,381	-	8,029,381
Loans.....	158,497	-	158,497
Total.....	\$ <u>9,586,199</u>	\$ <u>(17,219)</u>	\$ <u>9,568,980</u>

At June 30, 2012, receivables for the enterprise funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
User charges.....	\$ 2,266,729	\$ (2,320)	\$ 2,264,409
Special assessments.....	37,125	-	37,125
Intergovernmental.....	314,370	-	314,370
 Total.....	 <u>\$ 2,618,224</u>	 <u>\$ (2,320)</u>	 <u>\$ 2,615,904</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes....	\$ 342,649	\$ -	\$ 342,649
Tax liens	666,137	-	666,137
Motor vehicle and other excise taxes.....	92,833	-	92,833
Intergovernmental.....	6,867,008	83,175	6,950,183
Loans.....	-	158,497	158,497
Tax foreclosures.....	27,589	-	27,589
 Total.....	 <u>\$ 7,996,216</u>	 <u>\$ 241,672</u>	 <u>\$ 8,237,888</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 17,376,762	\$ 33,800	\$ (65,354)	\$ 17,345,208
Construction in progress.....	596,949	691,547	(248,051)	1,040,445
Total capital assets not being depreciated.....	<u>17,973,711</u>	<u>725,347</u>	<u>(313,405)</u>	<u>18,385,653</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	47,682,778	-	-	47,682,778
Machinery, equipment and vehicles.....	7,843,253	345,059	(182,227)	8,006,085
Infrastructure.....	10,080,544	804,044	-	10,884,588
Total capital assets being depreciated.....	<u>65,606,575</u>	<u>1,149,103</u>	<u>(182,227)</u>	<u>66,573,451</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(12,040,834)	(1,176,878)	-	(13,217,712)
Machinery, equipment and vehicles.....	(4,252,353)	(480,290)	182,227	(4,550,416)
Infrastructure.....	(1,946,311)	(218,358)	-	(2,164,669)
Total accumulated depreciation.....	<u>(18,239,498)</u>	<u>(1,875,526)</u>	<u>182,227</u>	<u>(19,932,797)</u>
Total capital assets being depreciated, net.....	<u>47,367,077</u>	<u>(726,423)</u>	<u>-</u>	<u>46,640,654</u>
Total governmental activities capital assets, net.....	<u>\$ 65,340,788</u>	<u>\$ (1,076)</u>	<u>\$ (313,405)</u>	<u>\$ 65,026,307</u>

Water Enterprise Fund:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,484,129	\$ -	\$ -	\$ 1,484,129
Construction in progress.....	88,657	-	(88,657)	-
Total capital assets not being depreciated.....	<u>1,572,786</u>	<u>-</u>	<u>(88,657)</u>	<u>1,484,129</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	222,486	-	-	222,486
Machinery, equipment and vehicles.....	469,520	107,737	-	577,257
Infrastructure.....	<u>21,234,152</u>	<u>1,708,191</u>	<u>(60,327)</u>	<u>22,882,016</u>
Total capital assets being depreciated.....	<u>21,926,158</u>	<u>1,815,928</u>	<u>(60,327)</u>	<u>23,681,759</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(155,741)	(4,450)	-	(160,191)
Machinery, equipment and vehicles.....	(398,355)	(9,588)	-	(407,943)
Infrastructure.....	<u>(9,506,572)</u>	<u>(553,438)</u>	<u>60,327</u>	<u>(9,999,683)</u>
Total accumulated depreciation.....	<u>(10,060,668)</u>	<u>(567,476)</u>	<u>60,327</u>	<u>(10,567,817)</u>
Total capital assets being depreciated, net.....	<u>11,865,490</u>	<u>1,248,452</u>	<u>-</u>	<u>13,113,942</u>
Total water enterprise fund capital assets, net.....	<u>\$ 13,438,276</u>	<u>\$ 1,248,452</u>	<u>\$ (88,657)</u>	<u>\$ 14,598,071</u>
Sewer Enterprise Fund:				
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 871,907	\$ -	\$ -	\$ 871,907
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	47,194	-	-	47,194
Machinery, equipment and vehicles.....	355,148	-	-	355,148
Infrastructure.....	<u>14,702,633</u>	<u>1,249,513</u>	<u>-</u>	<u>15,952,146</u>
Total capital assets being depreciated.....	<u>15,104,975</u>	<u>1,249,513</u>	<u>-</u>	<u>16,354,488</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(33,040)	(944)	-	(33,984)
Machinery, equipment and vehicles.....	(145,815)	(15,058)	-	(160,873)
Infrastructure.....	<u>(7,217,142)</u>	<u>(336,461)</u>	<u>-</u>	<u>(7,553,603)</u>
Total accumulated depreciation.....	<u>(7,395,997)</u>	<u>(352,463)</u>	<u>-</u>	<u>(7,748,460)</u>
Total capital assets being depreciated, net.....	<u>7,708,978</u>	<u>897,050</u>	<u>-</u>	<u>8,606,028</u>
Total sewer enterprise fund capital assets, net.....	<u>\$ 8,580,885</u>	<u>\$ 897,050</u>	<u>\$ -</u>	<u>\$ 9,477,935</u>

Municipal Light Enterprise Fund:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 22,976	\$ -	\$ -	\$ 22,976
<u>Capital assets being depreciated:</u>				
Production plant.....	7,352,016	35,679	(24,184)	7,363,511
Transmission plant.....	1,943,868	-	-	1,943,868
Distribution plant.....	17,296,697	1,182,064	(441,201)	18,037,560
General plant.....	2,668,214	-	(131,831)	2,536,383
Total capital assets being depreciated.....	<u>29,260,795</u>	<u>1,217,743</u>	<u>(597,216)</u>	<u>29,881,322</u>
<u>Less accumulated depreciation for:</u>				
Production plant.....	(4,704,107)	(94,509)	24,184	(4,774,432)
Transmission plant.....	(366,461)	(86,613)	-	(453,074)
Distribution plant.....	(8,294,016)	(608,640)	441,201	(8,461,455)
General plant.....	(1,705,410)	(56,649)	131,831	(1,630,228)
Total capital assets being depreciated.....	<u>(15,069,994)</u>	<u>(846,411)</u>	<u>597,216</u>	<u>(15,319,189)</u>
Total capital assets being depreciated, net.....	<u>14,190,801</u>	<u>371,332</u>	<u>-</u>	<u>14,562,133</u>
Total municipal light enterprise fund capital assets, net.....	<u>\$ 14,213,777</u>	<u>\$ 371,332</u>	<u>\$ -</u>	<u>\$ 14,585,109</u>

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

Governmental Activities:

General government.....	\$ 152,853
Finance.....	9,863
Planning and development.....	14,947
Public safety.....	181,756
Education.....	1,072,826
Public works.....	346,917
Code enforcement.....	2,400
Human services.....	26,245
Library.....	<u>67,719</u>

Total depreciation expense - governmental activities..... \$ 1,875,526

Business-Type Activities:

Water.....	\$ 567,476
Sewer.....	352,463
Municipal light.....	<u>846,411</u>

Total depreciation expense - business-type activities..... \$ 1,766,350

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2012 consisted of transfers of \$88,389 from nonmajor governmental funds to the general fund. These budgeted transfers were used to help fund the fiscal year 2012 operating budget from the waterways improvements, tourism development, and insurance recovery nonmajor special revenue funds.

NOTE 6 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2012 is as follows:

Governmental Activities:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2011	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2012
BAN	MWPAT Loan.....	0	12/31/12	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
				Balance at June 30, 2011	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2012
BAN	MWPAT Loan.....	0.15	12/31/12	\$ -	\$ 1,145,359	\$ -	\$ 1,145,359
BAN	Water.....	0.75	06/28/13	-	540,000	-	540,000
Total Water				-	1,685,359	-	1,685,359
BAN	MWPAT Loan.....	0.24	12/31/11	\$ 1,289,998	\$ -	\$ 1,289,998	\$ -
BAN	Sewer.....	0.75	06/28/13	-	430,000	-	430,000
Total Sewer				1,289,998	430,000	1,289,998	430,000
Total Business-Type.....				\$ 1,289,998	\$ 2,115,359	\$ 1,289,998	\$ 2,115,359

NOTE 7 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2012 and the debt service requirements are shown as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Municipal Purpose Bonds of 1999.....	2020	\$ 32,333,000	3.50 - 5.00	\$ 18,775,000	\$ -	\$ 1,725,000	\$ 17,050,000
Municipal Purpose Bonds of 2001.....	2012	8,073,000	3.50 - 4.75	420,000	-	420,000	-
Municipal Purpose Bonds of 2003.....	2018	888,055	2.35 - 4.00	464,000	-	62,000	402,000
Municipal Purpose Bonds of 2005.....	2020	525,000	2.75 - 5.00	315,000	-	35,000	280,000
Municipal Purpose Bonds of 2007.....	2027	1,665,000	4.00 - 5.00	1,283,500	-	96,000	1,187,500
Municipal Purpose Bonds of 2008.....	2018	400,000	3.25 - 5.00	280,000	-	40,000	240,000
Municipal Purpose Bonds of 2010.....	2025	1,382,000	2.00 - 5.00	1,160,000	-	200,000	960,000
Municipal Purpose Bonds of 2010.....	2029	6,181,400	2.00 - 5.00	6,181,400	-	170,000	6,011,400
Municipal Purpose Bonds of 2011.....	2030	1,600,000	2.00 - 3.25	1,600,000	-	85,000	1,515,000
Total Governmental.....				\$ 30,478,900	\$ -	\$ 2,833,000	\$ 27,645,900

Debt service requirements for principal and interest for governmental bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 2,904,400	\$ 1,112,474	\$ 4,016,874
2014.....	2,973,000	1,002,824	3,975,824
2015.....	2,993,000	879,823	3,872,823
2016.....	3,013,000	749,577	3,762,577
2017.....	3,108,000	614,160	3,722,160
2018.....	3,167,000	469,363	3,636,363
2019.....	3,170,000	323,498	3,493,498
2020.....	3,260,000	188,505	3,448,505
2021.....	580,000	114,063	694,063
2022.....	450,000	95,151	545,151
2023.....	315,000	81,588	396,588
2024.....	315,000	69,388	384,388
2025.....	315,000	57,082	372,082
2026.....	270,000	44,298	314,298
2027.....	257,500	32,898	290,398
2028.....	190,000	21,544	211,544
2029.....	190,000	13,025	203,025
2030.....	175,000	4,506	179,506
Totals.....	\$ 27,645,900	\$ 5,873,767	\$ 33,519,667

Bonds and Notes Payable Schedule – Enterprise Funds

Debt service requirements for principal and interest for enterprise fund bonds and notes payable in future fiscal years are as follows:

	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Water Projects							
Water.....	2012	\$ 100,000	3.50 - 4.25	\$ 10,000	\$ -	\$ 10,000	\$ -
Land Acquisition.....	2018	306,112	2.35 - 4.00	154,000	-	22,000	132,000
Water.....	2020	1,355,000	2.75 - 5.00	710,000	-	105,000	605,000
Water.....	2027	900,000	4.00 - 5.00	720,000	-	45,000	675,000
Water.....	2028	550,000	3.25 - 5.00	460,000	-	30,000	430,000
Water.....	2025	893,000	2.00 - 5.01	800,000	-	90,000	710,000
Water.....	2030	400,000	2.00 - 3.25	400,000	-	25,000	375,000
Total Water Enterprise.....				<u>3,254,000</u>	<u>-</u>	<u>327,000</u>	<u>2,927,000</u>
Sewer Projects							
Sewer 97-19 (MWPAT).....	2019	\$ 1,863,200	Variable	832,400	-	100,800	731,600
Sewer.....	2022	1,656,000	3.50 - 4.75	85,000	-	85,000	-
Sewer Land Acquisition.....	2022	40,000	2.35 - 3.40	5,000	-	5,000	-
Sewer.....	2018	150,000	2.35 - 4.00	77,000	-	11,000	66,000
Sewer.....	2016	57,000	2.75 - 5.00	25,000	-	5,000	20,000
Sewer.....	2027	977,000	4.00 - 5.00	776,500	-	49,000	727,500
Sewer.....	2022	813,600	2.00 - 3.25	813,600	-	-	813,600
Sewer (MWPAT).....	2023	1,952,534	2.00	-	1,952,534	-	1,952,534
Total Sewer Enterprise.....				<u>2,614,500</u>	<u>1,952,534</u>	<u>255,800</u>	<u>4,311,234</u>
Municipal Light Projects							
Electric Sub Station and System Improvements...	2028	\$ 6,000,000	3.25 - 4.10	5,100,000	-	300,000	4,800,000
Electric Sub Station and System Improvements...	2025	600,000	2.00 - 5.01	560,000	-	40,000	520,000
Wind Turbine.....	2030	2,642,000	2.00 - 3.25	2,642,000	-	147,000	2,495,000
Total Municipal Light Enterprise.....				<u>8,302,000</u>	<u>-</u>	<u>487,000</u>	<u>7,815,000</u>
Total Enterprise Funds.....				<u>\$ 14,170,500</u>	<u>\$ 1,952,534</u>	<u>\$ 1,069,800</u>	<u>\$ 15,053,234</u>

Debt service requirements for principal and interest for enterprise bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....\$	1,083,282	\$ 517,252	\$ 1,600,534
2014.....	1,127,499	481,057	1,608,556
2015.....	1,097,352	446,102	1,543,454
2016.....	1,092,444	412,043	1,504,487
2017.....	1,087,675	376,659	1,464,334
2018.....	1,093,946	335,137	1,429,083
2019.....	1,061,257	296,886	1,358,143
2020.....	871,810	260,058	1,131,868
2021.....	808,806	226,502	1,035,308
2022.....	810,845	196,214	1,007,059
2023.....	737,928	169,936	907,864
2024.....	740,056	144,479	884,535
2025.....	742,231	118,792	861,023
2026.....	689,452	92,279	781,731
2027.....	664,222	67,063	731,285
2028.....	594,042	42,581	636,623
2029.....	271,412	21,098	292,510
2030.....	243,833	12,894	256,727
2031.....	116,307	5,841	122,148
2032.....	118,835	3,539	122,374
2033.....	-	1,188	1,188
Totals..... \$	<u>15,053,234</u>	<u>\$ 4,227,600</u>	<u>\$ 19,280,834</u>

The Town has received bonds from the Massachusetts Water Pollution Abatement Trust (MWPAT) for various sewer projects. The remaining scheduled loan repayments, including interest, total \$301,199 at June 30, 2012. The Town is scheduled to be subsidized by the MWPAT on a periodic basis for principal in the amount of \$176,120 and interest costs for \$125,079. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$494,704. The principal subsidies are guaranteed and therefore a \$176,120 intergovernmental receivable has been recorded in the water enterprise fund at June 30, 2012. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2012 principal and interest subsidies totaled \$30,737 and \$18,807, respectively.

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2012, \$1,389,800 of such assistance was received. Approximately \$11,118,000 will be received in future fiscal years. Of this amount, approximately \$4,251,000 represents reimbursement of long-term interest costs, and approximately \$6,867,000 represents reimbursement of approved construction costs. Accordingly, a \$6,867,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The net change in deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2012, the Town had the following authorized and unissued debt:

Purpose	Amount
Bridges.....	\$ 165,000
Open Space.....	6,385,000
Riverwalk.....	75,000
Water Mains.....	3,945,000
Street Reconstruction.....	2,000,000
Wastewater Treatment Plant.....	4,447,466
Septic System Repairs.....	1,000,000
Fire Pumper Truck.....	525,000
Total.....	\$ 18,542,466

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Bonds payable.....	\$ 30,478,900	\$ -	\$ (2,833,000)	\$ 27,645,900	\$ 2,904,400
Other postemployment benefits....	4,163,789	2,710,975	(1,190,374)	5,684,390	-
Compensated absences.....	1,264,310	1,012,775	(979,804)	1,297,281	908,350
Total governmental activity long-term liabilities.....	\$ 35,906,999	\$ 3,723,750	\$ (5,003,178)	\$ 34,627,571	\$ 3,812,750
Business-Type Activities:					
Bonds payable.....	\$ 14,170,500	\$ 1,952,534	\$ (1,069,800)	\$ 15,053,234	\$ 1,083,282
Other postemployment benefits....	270,690	191,198	(208,213)	253,675	-
Compensated absences.....	242,900	128,266	(101,275)	269,891	119,259
Total business-type activity long-term liabilities.....	\$ 14,684,090	\$ 2,271,998	\$ (1,379,288)	\$ 15,576,800	\$ 1,202,541

The governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town classifies fund balances according to the constraints imposed on the use of the resources. There are two major types of fund balances, which are nonspendable and spendable.

In accordance with GASB 54, the stabilization funds have been reported in the general fund as unassigned. The balance of the stabilization funds as of June 30, 2012 is \$620,415.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The Town's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

The Town has classified its governmental fund balances with the following hierarchy.

	GOVERNMENTAL FUNDS		
	General	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES:			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 718,562	\$ 718,562
Restricted for:			
Town revolving funds.....	-	81,881	81,881
Town gifts and grant funds.....	-	91,836	91,836
Town receipts reserved.....	-	351,753	351,753
Other Town special revenue.....	-	40,379	40,379
Open space land acquisition.....	-	166,122	166,122
School federal grant funds.....	-	43,590	43,590
School gift funds.....	-	192,537	192,537
School revolving funds.....	-	2,267,465	2,267,465
Ipswich affordable housing.....	-	255,638	255,638
Town capital projects.....	-	100,394	100,394
Expendable trust funds.....	-	779,806	779,806
Assigned to:			
General government.....	8,884	-	8,884
Finance.....	8,476	-	8,476
Public safety.....	48,286	-	48,286
Education.....	178,210	-	178,210
Public works.....	198,722	-	198,722
Code enforcement.....	37,143	-	37,143
Planning and development.....	522	-	522
Human services.....	2,435	-	2,435
Employee benefits.....	10,000	-	10,000
Property and liability insurance.....	20,469	-	20,469
Miscellaneous.....	13,005	-	13,005
Debt service interest.....	86,053	-	86,053
Balance the FY13 operating budget.....	305,088	-	305,088
Unassigned.....	<u>2,754,112</u>	<u>-</u>	<u>2,754,112</u>
TOTAL FUND BALANCES.....	\$ <u>3,671,405</u>	\$ <u>5,089,989</u>	\$ <u>8,761,394</u>

NOTE 9 – RISK FINANCING

The Town is exposed to various risks of loss related to tort; theft of, damage to and the destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in premium-based health care and workers' compensation plans for its employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

NOTE 10 – PENSION PLAN

Plan Description - The Town contributes to the Essex Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth of Massachusetts (the Commonwealth). The amount of these on-behalf payments totaled \$3,035,000 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Essex Regional Retirement Board and are borne by the System. The System issues a publicly available, unaudited, financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 491 Maple Street, Danvers, Massachusetts 01923.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarially determined contribution that is apportioned among the employers based on annual covered payroll. Chapter 32 of the MGL governs the contributions of plan members and the Town. The Town's contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$2,108,849, \$1,941,972, and \$1,797,160, respectively, which equaled its required contribution for each fiscal year.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Town has previously implemented the provisions of GASB Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and during fiscal year 2010 established its "Other Postemployment Benefit Trust Fund" in accordance with these provisions. The Town voted to begin pre-funding its Other Postemployment Benefit (OPEB) liabilities through the use of this irrevocable trust.

Plan Description – The Town of Ipswich administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides health, dental and life insurance for eligible retirees and their spouses through a single-employer defined Other Postemployment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 50 percent of the cost of current-year premiums for health and life insurance for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 50 percent of their premium costs for health and life insurance and all of the premiums related to dental insurance. For fiscal year 2012, the Town's age-adjusted contribution to the plan totaled \$1,353,561.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish the postemployment benefit trust fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During fiscal year 2012, the Town pre-funded future OPEB liabilities in the amount of approximately \$511,000.

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

Annual required contribution.....	\$ 2,591,701
Interest on net OPEB obligation.....	176,894
Adjustments to annual required contribution.....	(382,453)
Amortization of actuarial (gains)/losses.....	<u>471,005</u>
 Annual OPEB cost (expense).....	 2,857,147
 Contributions made.....	 (1,353,561)
 Increase in net OPEB obligation.....	 1,503,586
 Net OPEB obligation - beginning of year.....	 <u>4,434,479</u>
 Net OPEB obligation - end of year.....	 <u>\$ 5,938,065</u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 2,857,147	47.4%	\$ 5,938,065
6/30/2011	2,175,044	44.3%	4,434,479
6/30/2010	2,141,703	30.8%	3,222,804
6/30/2009	2,290,951	24.0%	1,741,065

Funded Status and Funding Progress – The funded status of the plan as of the most recent actuarial valuation dates is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2011	\$ 252,794	\$ 29,719,285	\$ 29,466,491	0.9%	\$ 23,426,188	125.8%
7/1/2009	-	23,930,595	23,930,595	0.0%	23,032,308	103.9%
7/1/2007	-	20,162,942	20,162,942	0.0%	20,463,394	98.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.0% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend ranging from 5.0% to 9.0% and included a 2.5% inflation assumption. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 2.5% per year. The remaining amortization period at June 30, 2012 is 26 years.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2012, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

NOTE 13 – SUBSEQUENT EVENT

The bequest of a land area known as “Little Neck” in Ipswich in 1660 by William Paine established a Trust with the purpose of supporting the Ipswich Public Schools by making distributions to the Ipswich Public Schools for educational uses. Revisions to the governance structure and administrative requirements applicable to the Trust were approved by the courts in December, 2011 allowing for the sale of the property and creating a new Trust with the proceeds of the sale, which would become effective upon the filing of a master deed.

Subsequent to year end, in August, 2012, the sales of 166 land parcels on Little Neck were completed. The closings included land sales, conversion of cottages and land to condominium units, filing of the master deed and the reconstruction of the Trust to which William Paine donated the land in 1660. As a result, a new trustee governing board (known as the New Feoffees) is now in place. Two community members were appointed by each of the School Committee, Finance Committee and the Board of Selectmen, and a seventh was appointed by the old Feoffees.

Over the course of several years, Town Meeting has appropriated \$900,000 from free cash to fund the Feoffee’s legal issues. Approximately \$760,000 will be reimbursed to the Town when the annual gift to the schools is reinstated. In accordance with the new trust agreement, the first payment of \$800,340 was received by the schools on September 12, 2012 as well as \$575,000 as a partial reimbursement to the town for legal expenses incurred. A citizen group’s appeal to the court to stop the sale is pending. The School Committee has indicated that the funds received will not be spent until the appeal process is concluded.

NOTE 14 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

During fiscal year 2012, the following GASB pronouncements were implemented:

- GASB Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years. Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.

- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Governmental Operations*, which is required to be implemented in fiscal year 2015.

***Notes to Basic Financial Statements –
Ipswich Municipal Light Department***

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**1. Reporting Entity**

The Ipswich Municipal Light Department (the “Department”) is a department of the Town of Ipswich, Massachusetts (the “Town”) and is reported as an enterprise (proprietary) fund in the Town’s basic financial statements. The Department is governed by the Ipswich Municipal Light Commissioners (the “Commissioners”) who appoint a manager of municipal lighting who shall, under the direction of the Commissioners, have full charge of the operation and management of the Department.

2. Regulation, Rates, and Basis of Accounting

The Department is under the charge and control of the Commissioners in accordance with Chapter 164, Section 55 of the Massachusetts General Laws (MGL). Electric rates may be changed once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU), formerly known as the Department of Telecommunications and Energy. While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval. Pursuant to Chapter 164, Section 58 of the MGL, rates must be set such that annual net earnings from operations do not exceed 8% of the cost of the utility plant after repayment of operating expenses, interest on outstanding debt, the requirements of any serial debt and depreciation. Excess revenues are required to be refunded to the customers.

The Department uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

3. Use of Estimates

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

4. Utility Plant

The statutory provision for depreciation of the utility plant is computed on the straight-line method at 3% of the cost of plant in service at the beginning of the year, exclusive of land and land rights. Therefore no depreciation is taken in the year of Plant additions. MGL stipulates that the Department may change from the statutory depreciation rate up to 5% only with the approval of the DPU. The Department has been granted the approval to increase the depreciation rate but has used the statutory rate of 3%. Overall, these rates of depreciation approximate US GAAP.

Pursuant to MGL, cash is transferred to the Depreciation Fund in an amount equal to the annual provision for depreciation. The Depreciation Fund may only be used for replacements, additions to the utility plant in service and related debt service.

Costs related to issuance of bonds to finance utility plant have been capitalized and are being amortized over the life of the bonds.

5. Cash and Cash Equivalents

For purpose of the statement of cash flows, the Department considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

6. Revenues

Revenues from the sale of electricity are recorded on the basis of bills rendered from monthly meter readings. The revenues are based on rates established by the Department, which are applied to customers' consumption of electricity.

7. Inventory

Materials, supplies and fuel oil inventory are carried at the lower of cost or market, determined by the first-in, first-out method.

8. Provision for Payment to the Town of Ipswich in Lieu of Taxes

The Department contributed \$320,385 to the Town of Ipswich in lieu of taxes. All contributions to the Town are voted by the Commissioners.

9. Purchased Power Working Capital and Prepayments

Purchased power working capital is a deposit held by the Department's power supplier, Massachusetts Municipal Wholesale Electric Company (MMWEC). A fixed amount of working capital based on the Department's annual power purchases is required to be held on deposit with MMWEC for the purpose of paying the Department's power obligations as they become due. Working capital on deposit with MMWEC is replenished monthly. A credit for interest earned on deposits is applied to monthly billings and is recorded as revenue. Working capital on deposit with MMWEC at June 30, 2012 totaled \$1,458,230.

In addition to the working capital deposit the Department also has made other power supply related prepayments totaling approximately \$314,000.

10. Deferred Charges

The Department has a fuel cost adjustment clause pursuant to which increased fuel costs (fuel costs in excess of amounts recovered through base rates) are billable to customers. The Department records estimated unbilled fuel adjustment charge revenue at the end of accounting periods. Unbilled fuel costs totaled \$132,697 at June 30, 2012.

NOTE B – DEPOSITS

The Department's operating cash is deposited with the Town's Treasurer who commingles it with other Town funds. The Town Treasurer maintains separate bank accounts for the Department's Depreciation Fund, Rate Stabilization Fund, Customer Deposits payable, and the Conservation Fund.

The municipal finance laws of the commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT).

Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town’s deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2012, the Department’s bank balance was covered by Federal Depository Insurance and by the Depositors Insurance Fund.

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 22,976	\$ -	\$ -	\$ 22,976
<u>Capital assets being depreciated:</u>				
Production plant.....	7,352,016	35,679	(24,184)	7,363,511
Transmission plant.....	1,943,868	-	-	1,943,868
Distribution plant.....	17,296,697	1,182,064	(441,201)	18,037,560
General plant.....	2,668,214	-	(131,831)	2,536,383
Total capital assets being depreciated.....	<u>29,260,795</u>	<u>1,217,743</u>	<u>(597,216)</u>	<u>29,881,322</u>
<u>Less accumulated depreciation for:</u>				
Production plant.....	(4,704,107)	(94,509)	24,184	(4,774,432)
Transmission plant.....	(366,461)	(86,613)	-	(453,074)
Distribution plant.....	(8,294,016)	(608,640)	441,201	(8,461,455)
General plant.....	(1,705,410)	(56,649)	131,831	(1,630,228)
Total capital assets being depreciated.....	<u>(15,069,994)</u>	<u>(846,411)</u>	<u>597,216</u>	<u>(15,319,189)</u>
Total capital assets being depreciated, net.....	<u>14,190,801</u>	<u>371,332</u>	<u>-</u>	<u>14,562,133</u>
Total municipal light enterprise fund capital assets, net.....	<u>\$ 14,213,777</u>	<u>\$ 371,332</u>	<u>\$ -</u>	<u>\$ 14,585,109</u>

NOTE D – DEPRECIATION FUND

Pursuant to the provisions of the MGL, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of plant, nuclear decommissioning costs, the costs of contractual commitments, and deferred costs related to such commitments which the Commissioners determine are above market value.

On December 15, 2003, the Commissioners voted to transfer funds, in an amount not to exceed \$625,000 during the fiscal years 2003 through 2006, from the rate stabilization fund to the depreciation fund. The entire \$625,000 was transferred during the year ended December 31, 2004. These funds were used for upgrades to the utility plant. The transfer was treated as an internal loan that must be repaid over a 10 year period that began in fiscal year 2005. Interest on the loan is being calculated based on the interest rate of the rate stabilization fund investment. The interest on the loan is reclassified between the operating funds and rate stabilization funds and

therefore is not expensed by the Department. The outstanding principal balance of this internal loan totaled \$156,250 at June 30, 2012.

On January 24, 2005, the Commissioners voted to transfer \$715,000 from the rate stabilization fund to the depreciation fund. These funds were used for upgrades to the utility plant. The transfer was treated as an internal loan that must be repaid over a 10 year period that began in fiscal year 2007. Interest on the loan is being calculated based on the interest rate of the rate stabilization fund investment. The interest on the loan is reclassified between the operating funds and the rate stabilization funds and therefore is not expensed by the Department. The outstanding principal balance of this internal loan totaled \$250,250 at June 30, 2012.

NOTE E – RATE STABILIZATION FUND

The Department has established a stabilization fund for the purpose of minimizing exposure to rate fluctuations. Additionally, the fund may be used to help the Department maintain a competitive position in the marketplace or for other unexpected costs. The balance of the fund at June 30, 2012 was \$1,570,398 and is reported as restricted net assets in the Statement of Fund Net Assets. This amount will differ from the cash balance of the rate stabilization fund as a result of the loans described in Note D.

NOTE F – PENSION PLAN

Employees of the Department participate in the Essex Regional Retirement System (the System) through the Town. The Town allocates a portion of its obligation to the Department based on the relative number of participants and the amount of payroll. Total contributions by the department to the system totaled approximately \$174,000 for the year ended June 30, 2012, which represents approximately 8.23% of the System’s assessment to the Town.

NOTE G – LONG TERM DEBT

Details relating to the Department’s outstanding indebtedness at June 30, 2012 are as follows:

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Electric Sub Station and System Improvements...	2028	\$ 6,000,000	3.25 - 4.10	\$ 5,100,000	\$ -	\$ 300,000	\$ 4,800,000
Electric Sub Station and System Improvements...	2025	600,000	2.00 - 5.01	560,000	-	40,000	520,000
Wind Turbine.....	2030	2,642,000	2.00 - 5.00	2,642,000	-	147,000	2,495,000
Total Bonds Payable.....				\$ 8,302,000	\$ -	\$ 487,000	\$ 7,815,000

Debt service requirements for principal and interest for the Department’s bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....\$	485,000	\$ 303,126	\$ 788,126
2014.....	480,000	287,476	767,476
2015.....	480,000	271,976	751,976
2016.....	480,000	256,476	736,476
2017.....	480,000	239,376	719,376
2018.....	480,000	218,176	698,176
2019.....	480,000	196,976	676,976
2020.....	480,000	175,976	655,976
2021.....	480,000	154,976	634,976
2022.....	480,000	134,676	614,676
2023.....	480,000	117,126	597,126
2024.....	480,000	99,526	579,526
2025.....	480,000	81,750	561,750
2026.....	440,000	63,350	503,350
2027.....	440,000	45,800	485,800
2028.....	440,000	27,900	467,900
2029.....	140,000	10,000	150,000
2030.....	110,000	4,400	114,400
Totals..... \$	<u>7,815,000</u>	<u>\$ 2,689,062</u>	<u>\$ 10,504,062</u>

NOTE H – RELATED PARTY TRANSACTIONS

The Department pays the Town annually an in-lieu of tax payment at a rate of \$0.002953 per kilowatt sold annually. In addition to the in-lieu of tax payment the Department subsidizes the cost of street lighting to the Town. Additionally, the Town allocates expenses to the Department for various services during the year and the Department provides services and materials to the Town without reimbursement. Amounts included in expenses for the fiscal year ended June 30, 2012 under these arrangements are as follows:

Payment in lieu of taxes.....	\$ 320,385
Subsidized street lighting cost of power.....	43,434
Subsidized street lighting maintenance.....	36,289
Town salaries paid by the Department.....	53,985
Non-reimbursed services and materials provided to the Town.....	<u>35,685</u>
Total.....	<u>\$ 489,778</u>

The Department bills Town departments for electric light usage. The amount included in revenue under this arrangement was \$619,983 for the fiscal year ended June 30, 2012 and all amounts were paid prior to year end.

The Ipswich Water Department (the Water Department) shares office space in the Department’s building. Costs are not billed to the Water Department. Management has determined that the associated expenses are not significant and, therefore, has not assessed the Water Department fees for occupancy related costs.

NOTE I – MMWEC PARTICIPATION

The Town, acting through the Department, is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and contingency fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participants' share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participants' share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

The Department has entered into PSAs and Purchase Power Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

NOTE J – ENVIRONMENTAL REMEDIATION

The Department is required to clean up hazardous materials located at the Ipswich Power Plant (the "Plant"). The clean-up is in response to the presence of petroleum related contaminants in the soil and groundwater beneath the Plant building and the surrounding property.

Since January 2008, subsurface investigations including soil sampling and groundwater monitoring have been used to identify the extent of the contamination and develop a long-term approach resulting in no additional response actions.

In the prior year, total estimated clean-up cost (as determined by an independent environmental consultant) was estimated to be between \$22,000 and \$33,000. The Department had recorded a liability of \$33,000 to reflect this estimate.

Petroleum based contaminants found in the soil at the Plant and surrounding areas have been excavated, removed and disposed of during the year and further remediation activities have ceased. The Commonwealth of Massachusetts Department of Environmental Protection has deemed the site to be cleaned up in accordance with state regulations.

On-going obligations and costs related to the Plant clean up were reevaluated (by an independent environmental consultant) at June 30, 2012 and were estimated to cost between \$12,000 and \$15,000 annually in the near term. The Department has not recorded a liability for this estimate at June 30, 2012 and continued costs (if any) will be included as Plant operation expenses.

NOTE K – BERKSHIRE WIND COOPERATIVE CORPORATION

The Department is a Member of the Berkshire Wind Cooperative Corporation (Cooperative).

The Cooperative is organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and constitutes a municipal lighting plant cooperative. The Cooperative was formed by Massachusetts Municipal Wholesale Electric Company (MMWEC) and 14 Municipal Light Departments (Members) for the purpose of financing, owning, constructing and operating wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (Berkshire Wind Facility).

The Cooperative has constructed and installed 10 1.5-megawatt wind turbines at the Berkshire Wind Facility. The Cooperative provides wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility.

MMWEC sells all of the capability of the Berkshire Wind Facility (Capability) to the Members of the Cooperative (Members) under Power Purchase Agreements (PPAs). Among other things, the PPAs require each Cooperative Member to pay its *pro rata* share of the costs related to the Berkshire Wind Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility, plus 10% of the debt service to be paid into a Reserve and Contingency Fund. In addition, should a Cooperative Member fail to make any payment when due, other Cooperative Members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

The Cooperative has issued revenue bonds, which are payable solely from, and secured solely by, the revenues derived from the Berkshire Wind Facility. The revenues are used solely to provide for the payment of any bond issue relating to the Berkshire Wind Facility and to pay the Cooperative's cost of owning and operating the Berkshire Wind Facility.

The Department has entered into a PPA with the Berkshire Wind Cooperative Corporation. Under both the PPA, the Department is required to make certain payments to the Cooperative. Under the PPA, each Participant is unconditionally obligated to make all payments due to the Berkshire Wind Cooperative Corporation, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension or interruption of the output of the Berkshire Wind Facility. In addition, under the PPA, the Department is required to pay to the Cooperative its share of the Operation and Maintenance (O&M) costs of the Berkshire Wind Facility.

The Cooperative is involved in various legal actions. In the opinion of the Cooperative management, the outcome of such actions will not have a material adverse effect on the financial position of the Cooperative.

As of June 30, 2012, total capital expenditures for the Berkshire Wind Facility amounted to \$59,666,498, of which \$3,828,000, represents the amount associated with the Department's share of the Capability of the Berkshire Wind Facility of which it is Member, although such amount is not allocated to the Department. The Cooperative's debt outstanding for the Berkshire Wind Facility includes bonds totaling \$62,490,000, of which \$4,009,000 is associated with the Department's share of Capability of the Berkshire Wind Facility of which it is Member, although such amount is not allocated to the Department. As of June 30, 2012, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$97,192,000, of which \$6,236,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of the Ipswich Municipal Light Department required payments under the PSA, exclusive of the Reserve and Contingency Fund billings, to the Cooperative at June 30, 2012 and estimated for future years is shown below.

For Years Ended June 30,	Annual Costs
2013.....	\$ 347,000
2014.....	347,000
2015.....	346,000
2016.....	347,000
2017.....	346,000
2018 to 2022.....	1,732,000
2023 to 2027.....	1,732,000
2028 to 2030.....	1,039,000
Total.....	\$ 6,236,000

NOTE L – COMMITMENTS AND CONTINGENCIES

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC’s Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC’s cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is owned and operated by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC), and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC’s plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) (formerly FPL Energy Seabrook LLC), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC). The operating license for Seabrook Station extends to March, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Required Supplementary Information

General Fund Budgetary Comparison Schedule

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

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 29,578,728	\$ 29,775,362	\$ 30,052,564	\$ -	\$ 277,202
Tax liens.....	-	-	149,755	-	149,755
Motor vehicle and other excise taxes.....	1,612,000	1,612,000	1,654,543	-	42,543
Meals tax.....	140,000	140,000	147,538	-	7,538
Charges for services.....	30,000	30,000	34,982	-	4,982
Penalties and interest on taxes.....	134,147	134,147	189,894	-	55,747
Payments in lieu of taxes.....	427,000	427,000	479,881	-	52,881
Licenses and permits.....	541,000	541,000	559,549	-	18,549
Fines and forfeitures.....	54,000	54,000	45,908	-	(8,092)
Intergovernmental.....	5,642,417	5,642,417	5,800,808	-	158,391
Departmental and other.....	307,916	307,916	343,766	-	35,850
Investment income.....	65,000	65,000	43,836	-	(21,164)
Other.....	129,969	129,969	244,592	-	114,623
TOTAL REVENUES.....	38,662,177	38,858,811	39,747,616	-	888,805
EXPENDITURES:					
Current:					
General government.....	610,659	678,895	647,642	8,884	22,369
Finance.....	1,047,341	1,067,268	1,008,697	37,143	21,428
Planning and development.....	249,006	264,025	251,853	8,476	3,696
Public safety.....	4,072,679	4,189,152	4,071,005	48,286	69,861
Education.....	20,829,759	21,113,954	20,931,109	178,210	4,635
Public works.....	4,031,146	3,970,269	3,715,207	198,722	56,340
Code enforcement.....	423,474	426,852	406,780	522	19,550
Human services.....	399,314	390,760	380,914	2,435	7,411
Library.....	536,027	546,864	546,018	-	846
Employee benefits.....	2,384,099	2,321,863	2,174,201	10,000	137,662
Property and liability insurance.....	229,597	210,587	190,118	20,469	-
Miscellaneous.....	132,162	159,066	116,110	13,005	29,951
State and county charges.....	690,724	662,132	661,312	-	820
Debt service:					
Principal.....	2,833,000	2,833,000	2,833,000	-	-
Interest.....	1,380,129	1,359,766	1,262,193	86,053	11,520
TOTAL EXPENDITURES.....	39,849,116	40,194,453	39,196,159	612,205	386,089
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,186,939)	(1,335,642)	551,457	(612,205)	1,274,894
OTHER FINANCING SOURCES (USES):					
Transfers in.....	76,506	108,205	108,205	-	-
NET CHANGE IN FUND BALANCE.....	(1,110,433)	(1,227,437)	659,662	(612,205)	1,274,894
BUDGETARY FUND BALANCE, Beginning of year.....	2,391,328	2,391,328	2,391,328	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 1,280,895	\$ 1,163,891	\$ 3,050,990	\$ (612,205)	\$ 1,274,894

See notes to required supplementary information.

Retirement System Schedules

The Retirement System Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

ESSEX REGIONAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 278,332,006	\$ 536,115,536	\$ 257,783,530	51.9%	\$ 119,707,156	215.3%
01/01/08	301,420,965	445,171,554	143,750,589	67.7%	111,726,856	128.7%
01/01/06	261,327,047	375,593,562	114,266,515	69.6%	98,641,094	115.8%
01/01/04	229,852,971	333,396,222	103,543,251	68.9%	93,404,002	110.9%
01/01/02	218,346,198	287,390,715	69,044,517	76.0%	85,005,338	81.2%
01/01/00	190,363,700	253,847,100	63,483,400	75.0%	69,525,900	91.3%
01/01/99	180,034,700	268,386,000	88,351,300	67.1%	89,645,300	98.6%
01/01/98	151,293,900	245,965,100	94,671,200	61.5%	85,785,000	110.4%
01/01/96	106,176,700	200,397,500	94,220,800	53.0%	72,953,200	129.2%
01/01/94	80,878,500	178,256,800	97,378,300	45.4%	62,076,500	156.9%
01/01/92	61,357,800	143,785,900	82,428,100	42.7%	52,995,500	155.5%

The Town's share of the UAAL, as of January 1, 2011, is approximately 9.97%.

See notes to required supplementary information.

ESSEX REGIONAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	System Wide			Town of Ipswich	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2012	\$ 21,084,190	\$ 21,084,190	100%	\$ 2,108,849	10.00%
2011	19,484,573	19,484,573	100%	1,941,972	9.97%
2010	17,648,430	17,648,430	100%	1,797,160	10.18%
2009	16,326,599	16,326,599	100%	1,680,007	10.29%
2008	15,623,540	15,623,540	100%	1,550,707	9.93%
2007	15,788,864	15,788,864	100%	1,439,042	9.11%
2006	16,622,274	16,622,274	100%	1,380,330	8.30%
2005	13,080,011	13,080,011	100%	1,169,516	8.94%

The Town's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2011	\$ 252,794	\$ 29,719,285	\$ 29,466,491	0.9%	\$ 23,426,188	125.8%
7/1/2009	-	23,930,595	23,930,595	0.0%	23,032,308	103.9%
7/1/2007	-	20,162,942	20,162,942	0.0%	20,463,394	98.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2012	\$ 2,591,701	\$ 1,353,561	52%
2011	2,225,339	963,369	43%
2010	2,170,628	659,964	30%
2009	2,290,951	549,886	24%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	July 1, 2011
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Level dollar
Remaining amortization period.....	27 years as of July 1, 2011

Actuarial Assumptions:

Investment rate of return.....	4.0%, pay-as-you-go scenario
Medical/drug cost trend rate.....	Ranging from 5.0% to 7.0%
Dental.....	Ranging from 5.0% to 6.5%

Plan Membership:

Current retirees, beneficiaries, and dependents...	208
Current active members.....	<u>464</u>
Total.....	<u><u>672</u></u>

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting adopts the expenditure budget by majority vote.

Increases or transfers between departments subsequent to the approval of the annual budget, requires majority Town Meeting approval via a Special Town Meeting.

The majority of the Town’s appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote of Town Meeting.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 budget includes \$39.2 million in appropriations and other amounts to be raised and \$669,000 in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2012, Town Meeting approved supplemental appropriations totaling \$345,000.

The Finance office has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the Town’s accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2012, is presented below:

Net change in fund balance, budgetary basis.....	\$ 659,662
<u>Perspective difference:</u>	
Activity of the stabilization funds recorded in the general fund for GAAP.....	(13,422)
<u>Basis of accounting differences:</u>	
Net increase in revenues due to on-behalf payments.....	(3,035,000)
Net increase in recording expenditures due to on-behalf payments.....	<u>3,035,000</u>
Net change in fund balance, GAAP basis.....	<u>\$ 646,240</u>

3. Appropriation Deficits

None of the Town’s expenditures exceeded appropriations for fiscal year 2012.

NOTE B – PENSION PLAN

The Town contributes to the Essex Regional Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Essex Regional Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Retirement System its share of the systemwide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town’s proportionate share of the plan’s annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System’s most recent actuarial valuation:

Actuarial Methods and Assumptions:

Valuation Date.....	January 1, 2011
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.5% per year
Remaining Amortization Period.....	24 years remaining as of July 1, 2011, closed
Asset Valuation Method.....	20% of the difference between the market value of assets and the preliminary actuarial value is added to the preliminary actuarial value and must be within 20% of market value of the assets.

Actuarial Assumptions:

Investment rate of return.....	8.25%
Projected salary increases.....	5.00%
Cost of living adjustments.....	3.00% for the first \$12,000 of retirement income

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	1,624
Terminated participants entitled to a return of their employee contributions.....	844
Terminated participants with a vested right to a deferred or immediate benefit.....	70
Active participants.....	<u>3,013</u>
Total.....	<u><u>5,551</u></u>

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan (“The Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members, including teachers.

The Town currently finances its other postemployment benefits (OPEB) on a combined pre-funded and pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multiyear trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

***Additional Information –
Municipal Light Enterprise Fund
Schedules***

MUNICIPAL LIGHT ENTERPRISE FUND
COMPARATIVE SCHEDULE OF FUND NET ASSETS

JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 462,777	\$ 1,088,922
Restricted cash and cash equivalents.....	522,731	527,128
Receivables, net of allowance for uncollectibles:		
User fees.....	1,651,216	1,459,357
Purchased power working capital and prepayments.....	1,772,057	2,790,741
Deferred Charges.....	132,697	103,296
Inventory.....	158,870	137,974
Total current assets.....	4,700,348	6,107,418
NONCURRENT:		
Restricted cash and cash equivalents.....	1,233,208	1,170,276
Capital assets, net of accumulated depreciation.....		
Nondepreciable.....	22,976	22,976
Depreciable.....	14,562,133	14,190,801
Total noncurrent assets.....	15,818,317	15,384,053
TOTAL ASSETS.....	20,518,665	21,491,471
LIABILITIES		
CURRENT:		
Accounts payable.....	1,590,236	1,757,664
Accrued payroll.....	25,998	16,946
Accrued interest.....	28,302	25,652
Customer deposits payable.....	89,310	86,843
Other liabilities.....	852,403	1,140,466
Compensated absences.....	11,100	9,970
Bonds and notes payable.....	485,000	484,494
Total current liabilities.....	3,082,349	3,522,035
NONCURRENT:		
Environmental remediation liabilities.....	-	33,000
Compensated absences.....	100,243	89,728
Other postemployment benefits.....	49,640	75,304
Bonds and notes payable.....	7,330,000	7,817,506
Total noncurrent liabilities.....	7,479,883	8,015,538
TOTAL LIABILITIES.....	10,562,232	11,537,573
NET ASSETS		
Invested in capital assets, net of related debt.....	6,770,109	5,911,777
Restricted for:		
Rate stabilization.....	1,570,398	1,643,933
Depreciation.....	490,434	427,445
Unrestricted.....	1,125,492	1,970,743
TOTAL NET ASSETS.....	\$ 9,956,433	\$ 9,953,898

MUNICIPAL LIGHT ENTERPRISE FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
<u>OPERATING REVENUES:</u>		
Charges for services	\$ 13,671,207	\$ 14,261,993
Other.....	112,824	37,096
TOTAL OPERATING REVENUES	13,784,031	14,299,089
<u>OPERATING EXPENSES:</u>		
Cost of services and administration	12,649,069	13,114,526
Depreciation.....	846,411	788,224
TOTAL OPERATING EXPENSES	13,495,480	13,902,750
OPERATING INCOME (LOSS).....	288,551	396,339
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Investment income.....	23,626	39,623
Interest expense.....	(309,642)	(239,057)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(286,016)	(199,434)
CHANGE IN NET ASSETS.....	2,535	196,905
NET ASSETS AT BEGINNING OF YEAR.....	9,953,898	9,756,993
NET ASSETS AT END OF YEAR.....	\$ 9,956,433	\$ 9,953,898

MUNICIPAL LIGHT ENTERPRISE FUND
COMPARATIVE SCHEDULE OF SALES OF ELECTRICITY

FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

<u>SALES OF ELECTRICITY:</u>	<u>2012</u>	<u>2011</u>
Residential.....	\$ 6,073,366	\$ 6,493,866
Commercial.....	739,774	776,059
Industrial.....	6,204,435	6,260,716
Municipal.....	554,343	634,190
Private Lighting.....	33,649	31,523
Street Lights.....	<u>65,640</u>	<u>65,640</u>
TOTAL SALES OF ELECTRICITY.....	\$ <u>13,671,207</u>	\$ <u>14,261,994</u>

MUNICIPAL LIGHT ENTERPRISE FUND
COMPARATIVE SCHEDULE OF COST OF SERVICE AND ADMINISTRATION

FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
<u>Power Production Expenses:</u>		
Purchased power.....	\$ 10,062,865	\$ 10,596,607
Other power expenses.....	427,534	457,196
 Total Power Production Expenses.....	 10,490,399	 11,053,803
<u>Distribution Expenses:</u>		
Station expenses.....	85,858	43,308
Customer installation expenses.....	23,140	29,061
Miscellaneous distribution expense.....	142,471	135,620
Maintenance of overhead lines.....	596,516	521,419
Maintenance of street lights and signal systems.....	2,210	11,008
 Total Distribution Expenses.....	 850,195	 740,416
<u>Customer Account Expenses:</u>		
Customer records and collection.....	135,312	131,515
Uncollectible accounts.....	4,271	12,472
 Total Customer Account Expenses.....	 139,583	 143,987
<u>Administrative and General Expenses:</u>		
Payments in lieu of taxes.....	320,385	277,336
Administrative and general salaries.....	377,163	377,397
Office supplies and expenses.....	111,704	128,554
Outside services.....	67,400	95,895
Property and general insurance.....	56,163	62,772
Employee's pensions and benefits.....	194,124	173,386
Miscellaneous general expense.....	41,953	60,980
 Total Administrative and General Expenses.....	 1,168,892	 1,176,320
 TOTAL OPERATION AND MAINTENANCE EXPENSES... \$	 <u>12,649,069</u>	 <u>\$ 13,114,526</u>