

TOWN OF IPSWICH, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2013

TOWN OF IPSWICH, MASSACHUSETTS

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100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Ipswich, Massachusetts

Report on the Financial Statements

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 year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Ipswich, Massachusetts' basic financial statements. The municipal light enterprise fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of the Town of Ipswich, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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* in considering the Town of Ipswich, Massachusetts' internal control over financial reporting and compliance.

Powers & Sullivan LLC

December 9, 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, 2013. 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 \$100.2 million (net position).
- Of this amount, 4.7% or \$4.7 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$25.6 million during fiscal year 2013. Of this increase, \$24 million is directly from the establishment of the new Feoffee's Trust.
- At the close of the current fiscal year, the Town's governmental funds reported an ending total fund balance of \$34.9 million, an increase of approximately \$26.1 million in comparison with the prior year. Approximately \$3 million represents unassigned fund balance of the general fund, while \$1.2 million is assigned for fiscal year 2014 expenditures. The Feoffees trust major fund reported a nonspendable balance of \$21.8 million and a restricted balance of \$2.3 million. Approximately \$5.9 million represents restricted fund balance in the nonmajor governmental funds, while the nonspendable portion totals approximately \$736,000 and the unassigned balance is a deficit totaling \$74,000.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$3 million or 6.8% of total general fund expenditures.
- The Town's total gross bonded debt decreased by \$1.1 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 position* presents information on all assets and liabilities, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

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, public safety, education, public works, code enforcement, planning and development, human services, library, Feoffee's Trust 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 position may serve over time as a useful indicator of a government's financial position. Ipswich's assets exceeded liabilities for governmental activities by \$72.8 million at the close of fiscal year 2013.

	FY 2013 Governmental Activities	FY 2012 Governmental Activities
Assets:		
Current assets.....	\$ 34,437,239	\$ 12,941,163
Noncurrent assets (excluding capital).....	9,975,224	6,100,529
Capital assets.....	<u>64,381,788</u>	<u>65,026,307</u>
Total assets.....	<u>108,794,251</u>	<u>84,067,999</u>
Liabilities:		
Current liabilities (excluding debt).....	1,988,409	2,099,737
Noncurrent liabilities (excluding debt).....	7,660,410	6,073,321
Current debt.....	4,028,000	3,904,400
Noncurrent debt.....	<u>22,238,500</u>	<u>24,741,500</u>
Total liabilities.....	<u>35,915,319</u>	<u>36,818,958</u>
Net Position:		
Net investment in capital assets.....	44,123,920	43,224,371
Restricted.....	26,288,381	2,240,466
Unrestricted.....	<u>2,466,631</u>	<u>1,784,204</u>
Total net position.....	<u>\$ 72,878,932</u>	<u>\$ 47,249,041</u>

Net position of \$44.1 million (60.6%) 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 position, \$26.3 million (36%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$2.5 million (3.4%) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities assets exceeded liabilities by \$72.9 million at June 30, 2013. The governmental activities net position increased by \$25.6 million in fiscal year 2013. The main reason for such a large increase was the court ordered creation of a new Feoffees trust which received proceeds from the sale of properties in an area of Town known as Little Neck and is managing them in accordance with a Trust Administration Order to benefit Ipswich Public Schools. The Feoffees Trust had a year-end balance of approximately \$24 million. Other key reasons for the increase in net position include the better than anticipated budgetary results in the general fund of \$1.2 million, offset with the recognition of other postemployment benefit expenses of \$1.6 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, 2013, the Town has pre-funded \$1.4 million 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 \$1.6 million for governmental activities for the fiscal year ended June 30, 2013.

	FY 2013 Governmental Activities	FY 2012 Governmental Activities
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 6,454,373	\$ 3,367,231
Operating grants and contributions.....	9,947,882	9,152,778
Capital grants and contributions.....	29,592,076	50,751
General revenues:		
Real estate and personal property taxes.....	30,858,110	30,155,553
Motor vehicle and other excise taxes.....	1,795,866	1,644,947
Hotel/motel tax.....	30,648	29,824
Meals tax.....	195,945	147,538
Penalties and interest on taxes.....	207,677	189,894
Payments in lieu of taxes.....	482,657	479,881
Grants and contributions not restricted to specific programs.....	1,791,990	1,782,889
Unrestricted investment income.....	115,868	68,083
Miscellaneous.....	61,920	55,405
Total revenues.....	<u>81,535,012</u>	<u>47,124,774</u>
Expenses:		
General government.....	795,767	1,185,819
Finance.....	1,415,858	1,302,728
Public safety.....	6,445,540	6,081,954
Education.....	32,158,337	30,666,362
Public works.....	4,366,189	4,027,612
Code enforcement.....	800,350	634,278
Planning and development.....	424,802	464,072
Human services.....	645,820	612,277
Library.....	782,038	775,276
Feoffee's trust fund.....	6,986,316	-
Interest.....	1,084,104	1,217,769
Total expenses.....	<u>55,905,121</u>	<u>46,968,147</u>
Change in net position.....	<u>\$ 25,629,891</u>	<u>\$ 156,627</u>

During fiscal year 2013, the courts ordered the formation of the new Feoffee's Trust fund, which stipulates that the Trust shall be a public body and an agency of the Town of Ipswich or its subdivisions. The new Feoffees are the trustees and hold title to and manage all of the assets of the trust, which are required to be managed in accordance with a court order and trust administration order. The Ipswich Public Schools are the beneficiaries of the trust. Accordingly, the Town has recorded the Trust as a major governmental fund in the basic financial statements. The recognition of this new major governmental fund caused an increase of \$2.8 million in charges for services, \$518,000 in operating grants and contributions, \$29.2 million in capital grants and contributions, and \$7 million in direct expenses related to the formation of the trust.

Other governmental capital grants and contributions increased by \$391,000 during fiscal year 2013. These capital grants relate primarily to the state's Chapter 90 Highway program. Other decreases in general government expenses were primarily related to legal fees paid in the prior year which related to the Feoffee's litigation. The Town was reimbursed by the Feoffees Trust in fiscal year 2013 for \$575,000 of these legal costs. Increases in education expenses were budgeted in the general fund.

Business-type Activities

For the Town's business-type activities, assets exceeded liabilities by \$27.3 million at the close of fiscal year 2013.

	FY 2013 Business-type Activities	FY 2012 Business-type Activities
	<u> </u>	<u> </u>
Assets:		
Current assets.....	\$ 6,417,066	\$ 7,657,619
Noncurrent assets (excluding capital).....	1,599,582	1,440,352
Capital assets.....	39,184,914	38,661,115
Total assets.....	<u>47,201,562</u>	<u>47,759,086</u>
Liabilities:		
Current liabilities (excluding debt).....	3,033,157	2,714,534
Noncurrent liabilities (excluding debt).....	529,532	493,617
Current debt.....	1,252,113	1,083,282
Noncurrent debt.....	15,062,180	13,969,952
Total liabilities.....	<u>19,876,982</u>	<u>18,261,385</u>
Net Position:		
Net investment in capital assets.....	23,416,913	22,143,878
Restricted.....	1,658,874	2,060,832
Unrestricted.....	2,248,793	3,177,632
Total net position.....	<u>\$ 27,324,580</u>	<u>\$ 27,382,342</u>
	FY 2013 Business-type Activities	FY 2012 Business-type Activities
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 18,778,438	\$ 17,658,688
Operating grants and contributions.....	107,421	71,495
Total revenues.....	<u>18,885,859</u>	<u>17,730,183</u>
Expenses:		
Water enterprise.....	2,582,450	2,634,612
Sewer enterprise.....	1,665,292	1,578,067
Municipal light enterprise.....	14,695,879	13,805,122
Total expenses.....	<u>18,943,621</u>	<u>18,017,801</u>
Change in net position.....	<u>\$ (57,762)</u>	<u>\$ (287,618)</u>

Business-type net position of \$23.4 million (85.7%) represents investments in capital assets, net of any related debt. Net position of \$1.7 million (6.1%) is restricted for the Light Department's Rate Stabilization and Capital Depreciation funds. The remaining \$2.2 million (8.2%) is available to be used for the ongoing operation of the Town's water, sewer and municipal light departments.

Cumulatively, net position of the business-type activities decreased by \$58,000. The minimal overall change in net position 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 \$34.8 million, an increase of \$26.1 million 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 \$3 million, while \$1.2 million has been assigned for the fiscal year 2014 operating budget. The total general fund balance of \$4.2 million increased by \$517,000 during fiscal year 2013. 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 6.8% of total general fund expenditures, while total fund balance represents 9.5% of that same amount.

The Feoffees Trust major fund is used to account for funds held by the Feoffees of the Grammar School in the Town of Ipswich Trust which was established pursuant to a court order which dissolved the prior Feoffees Trust and created a new trust to hold title to and manage assets acquired through the bequest from William Paine to benefit the Ipswich Public Schools. The new trust was created in fiscal year 2013 and received the proceeds from the sale of 167 parcels of land in a land area known as Little Neck. The Courts stipulated the terms of the sale, and the funds received are invested by and managed by a group of trustees known as the Feoffees. The Trust's revenues totaled \$32.4 million and expenditures totaled \$7 million. Additionally, the Trust transferred \$1.4 million to the Ipswich School Department in accordance with the court's requirements. The ending trust balance totaled \$24 million.

Nonmajor governmental funds reported an increase of \$1.5 million of which \$850,000 relates to the Feoffee's contribution to the School Department and \$679,000 represents an increase in capital assets funded from the Town's free cash at the May, 2013 Town Meeting.

General Fund Budgetary Highlights

The increase of \$1.4 million between the original budget and the final amended budget consisted of \$75,000 of transfers from waterways, \$218,000 of increases in local aid, and \$1.1 million appropriated from available funds (free cash) voted at the fall and spring Special Town Meetings for the operating budget, capital projects, and to

fund the stabilization and OPEB funds. The original available general fund budget consisted of \$40.3 million in departmental appropriations and \$612,000 in amounts carried forward from the fiscal year 2012 budget.

Total revenues came in over budget by approximately \$906,000, and actual expenditures were under budget by \$330,000. Transfers in were also over budget by \$575,000 which represents the unbudgeted reimbursement for legal fees received from the Feoffees trust.

Capital Asset and Debt Administration

During the current fiscal year the Town expended \$1.4 million on governmental activities capital assets consisting mainly of \$540,000 for road construction, \$1 million for machinery, equipment and vehicles, and \$528,000 for ongoing road construction projects classified as construction in progress. Business-type activities expended \$2.3 million for capital assets. Of this amount, the water enterprise fund expended \$266,000 for construction in progress, infrastructure and equipment; the sewer enterprise fund expended \$1.1 million which was mainly for infrastructure; and the electric light department expended \$982,000 mainly for distribution plant upgrades.

The Town's governmental funds had total bonded debt outstanding of \$25.3 million at the end of the current fiscal year. Of this amount, \$17.4 million is related to school projects, \$4.9 million relates to land purchases, \$255,000 relates to library renovations, \$865,000 relates to the purchase of equipment, and \$1.8 million relates to other capital related projects. During fiscal year 2013 general obligation bonds were issued for \$525,000 for the purchase of a fire truck, and the Town paid down \$2.9 million of outstanding bonds. The enterprise funds had \$16.3 million of debt outstanding at the end of the current year. Of this amount, \$4.5 million related to water, \$4.5 million related to sewer, and \$7.3 million related to electric light projects. In the current year, the Town issued long term MWPAT debt totaling \$1.1 million in the water enterprise fund and \$690,000 and \$430,000 of general obligation bonds in the water and sewer funds, respectively. The enterprise funds redeemed \$1 million in long term bonds.

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 2014 in the amount of \$20,437,922 which included \$15,455,120 for the Municipal Operating budget plus \$61,938 from Waterways Improvement Fund for the Harbormaster's budget. The budget represents a substantial overhaul of the Town's operating budget in that it was grouped into six functional categories: General Government (\$1,389,051), Planning & Community Development (\$491,232), Public Safety (\$4,273,488), Public Works (\$3,804,630), Community & Cultural Services (\$1,198,759) and Benefits & Other (\$4,359,898).

Also included in this omnibus budget was \$2,860,446 for the Water Department and \$2,060,418 for the Wastewater Department. The Wastewater budget will be offset in part by a wastewater surplus of \$279,095. The balance of Water and Sewer budget appropriations will be met by revenues of each department during fiscal year 2014.

Town Meeting approved the School's Operating Budget for \$22,428,538 for fiscal year 2014. Town Meeting also approved \$2,535,382 for the High School/Middle School Capital Project debt service for fiscal year 2014.

A five year capital plan was prepared, in collaboration with town and school departments, and submitted to the Board of Selectmen for adoption. The Annual Town Meeting approved the \$678,600 capital budget which will be funded through free cash. A longer term funding plan, which is essential to a healthy and sustainable capital

program, is under discussion among representatives of the Board of Selectmen, School Committee, and Finance Committee.

The Annual Town Meeting approved an appropriation of \$328,809 as Ipswich's share of the operating and debt service expenses of the Whittier Regional Vocational Technical High School for fiscal year 2014.

Town Meeting appropriated \$663,485 under the provisions of Chapter 90 of the General Laws.

Under Article 12 of the Annual Town Meeting, \$126,000 was appropriated from free cash and transferred into the Stabilization Fund, and Article 13 transferred \$86,000 from free cash into the Other Post-Employment Benefits (OPEB) Fund. The balances in Stabilization and OPEB respectively are \$753,784 and \$1,393,277. Discussions are underway among town officials to develop a long term funding plan which will not adversely affect town and school operations but will continue to make reasonable contributions to the OPEB Trust.

Under Article 9 of the Annual Town Meeting, \$3,000,000 was appropriated to pay costs of reconstructing Linebrook Road, including replacement and upgrade of sidewalks, bicycle safety enhancements, and reconstruction of the Doyon School parking areas, and all other costs incidental and related thereto, and that any remaining appropriation be used for sidewalk, pedestrian and/or bicycling safety enhancement projects elsewhere in Town, and that to meet this appropriation by authorizing the Treasurer, with the approval of the Board of Selectmen, to issue bonds or notes pursuant to Chapter 44, Section 7(6) of the General Laws, provided, however, that this appropriation shall be subject to passage of a Proposition 2-1/2 debt exclusion ballot question. At the Town Election on Tuesday, May 14, 2013, this ballot question passed by majority vote.

Under Article 10 of the Annual Town Meeting, \$1,767,000 was appropriated to pay costs of painting the Town Hill Water Tank (\$900,000) and making repairs and upgrades to the Water Treatment Plant (\$867,000) including the payment of all costs incidental and related thereto; and that to meet this appropriation, the Treasurer, with the approval of the Selectmen, is authorized to borrow said amount under and pursuant to Chapter 44, Section 8 of the General Laws and to issue bonds or notes of the Town therefore. Any amounts borrowed pursuant to this vote shall be paid, in the first instance, from water revenues.

At the Special Town Meeting on October 15, 2013, an amendment to the Town's budget was appropriated for \$18,757 and to the School's budget for \$90,101. The appropriations will be offset by additional State Cherry Sheet revenue that was approved through the Final State Budget.

Article 4 appropriated \$117,000 from free cash to the Town's budget to fund unforeseen retirement obligations to municipal employees in Fiscal 2014;

Article 5 to appropriate \$63,500 to complete engineering for field expansion and development activities related to Mile Lane fields, including design, permitting, bidding and construction related engineering services was referred to the Finance Committee for action at the May, 2014 Annual Town Meeting.

Article 6 appropriated \$450,000 from free cash to the Stabilization Fund which will continue the town's effort to build a healthy reserve, improve the town's bond rating, and ensure that the town has access to resources in the event of an emergency.

Article 7 appropriated \$200,000 from free cash to the Other Post-Employment Benefits Fund (OPEB). This continues the town's progress in meeting its obligations for retiree health insurance costs.

Article 8 appropriated \$500,000 from free cash to the Capital Stabilization Fund. This appropriation will set aside funds for continued funding of prioritized capital projects.

Article 9 appropriated \$650,000 to fund the reconstruction of a section of water main on Linebrook Road. This appropriation authorizes the Treasurer, with the approval of the Board of Water Commissioners to issue bonds or serial noted under the provisions of Massachusetts General Laws Chapter 44, as amended.

Over the course of several years, Town Meeting had appropriated \$900,000 from free cash to fund the Feoffee's legal issues. Out of the \$760,000 owed back to the town, \$575,000 was repaid on September 12, 2012. In addition, there were turnbacks at the end of the last two fiscal years of \$398 and \$1,832 leaving a balance of \$182,770 to be repaid. The school also received a first payment of \$800,340 on the same date. In addition \$806,022 was received on August 27, 2013 and it is expected that an additional payment of \$800,000 will be received in August 2014. Subsequent to August 2014, all future contributions to the schools will be determined by the amount of growth available in the fund.

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

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STATEMENT OF NET POSITION

JUNE 30, 2013

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 12,044,594	\$ 1,469,380	\$ 13,513,974
Restricted cash and cash equivalents.....	-	173,301	173,301
Investments.....	18,135,483	-	18,135,483
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	488,751	-	488,751
Tax and utility liens.....	597,622	-	597,622
Motor vehicle and other excise taxes.....	222,989	-	222,989
User fees.....	-	2,729,669	2,729,669
Departmental and other.....	182,380	-	182,380
Intergovernmental.....	2,188,426	123,703	2,312,129
Special assessments.....	-	5,943	5,943
Mortgage notes.....	434,316	-	434,316
Use and occupancy loans.....	104,514	-	104,514
Loans.....	10,575	-	10,575
Tax foreclosures.....	27,589	-	27,589
Purchased power working capital and prepayments.....	-	1,757,442	1,757,442
Inventory.....	-	157,628	157,628
NONCURRENT:			
Restricted assets:			
Cash and cash equivalents.....	-	1,426,874	1,426,874
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	5,150,256	147,627	5,297,883
Special assessments.....	-	25,081	25,081
Mortgage notes.....	4,400,056	-	4,400,056
Use and occupancy loans.....	277,662	-	277,662
Loans.....	147,250	-	147,250
Capital assets:			
Nondepreciable.....	18,177,079	2,685,648	20,862,727
Depreciable.....	46,204,709	36,499,266	82,703,975
TOTAL ASSETS.....	108,794,251	47,201,562	155,995,813
LIABILITIES			
CURRENT:			
Warrants payable.....	296,668	2,133,907	2,430,575
Accrued payroll.....	159,550	51,285	210,835
Accrued interest.....	146,681	79,068	225,749
Other liabilities.....	446,209	677,309	1,123,518
Compensated absences.....	939,301	91,588	1,030,889
Notes payable.....	1,000,000	-	1,000,000
Bonds payable.....	3,028,000	1,252,113	4,280,113
NONCURRENT:			
Customer deposits payable.....	-	105,872	105,872
Compensated absences.....	419,401	161,837	581,238
Other postemployment benefits.....	7,241,009	261,823	7,502,832
Bonds payable.....	22,238,500	15,062,180	37,300,680
TOTAL LIABILITIES.....	35,915,319	19,876,982	55,792,301
NET POSITION			
Net investment in capital assets.....	44,123,920	23,416,913	67,540,833
Restricted for:			
Rate stabilization.....	-	1,613,502	1,613,502
Depreciation.....	-	45,372	45,372
Affordable Housing.....	264,994	-	264,994
Loans.....	157,825	-	157,825
Permanent funds:			
Expendable.....	3,222,558	-	3,222,558
Nonexpendable.....	22,530,978	-	22,530,978
Gifts and grants.....	112,026	-	112,026
Unrestricted.....	2,466,631	2,248,793	4,715,424
TOTAL NET POSITION.....	\$ 72,878,932	\$ 27,324,580	\$ 100,203,512

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 795,767	\$ 565,853	\$ 17,153	\$ -	\$ (212,761)
Finance.....	1,415,858	100	-	-	(1,415,758)
Public safety.....	6,445,540	572,684	105,891	-	(5,766,965)
Education.....	32,158,337	1,596,026	8,305,049	-	(22,257,262)
Public works.....	4,366,189	205,512	136,512	442,076	(3,582,089)
Code enforcement.....	800,350	532,960	-	-	(267,390)
Planning and development.....	424,802	74,700	47,476	-	(302,626)
Human services.....	645,820	85,380	184,129	-	(376,311)
Library.....	782,038	7,293	127,525	-	(647,220)
Feoffee's trust.....	6,986,316	2,813,865	492,723	29,150,000	25,470,272
Interest.....	1,084,104	-	531,424	-	(552,680)
Total Governmental Activities.....	55,905,121	6,454,373	9,947,882	29,592,076	(9,910,790)
<i>Business-Type Activities:</i>					
Water.....	2,582,450	2,436,582	36,038	-	(109,830)
Sewer.....	1,665,292	1,363,254	57,661	-	(244,377)
Municipal Light.....	14,695,879	14,978,602	13,722	-	296,445
Total Business-Type Activities.....	18,943,621	18,778,438	107,421	-	(57,762)
Total Primary Government.....	\$ 74,848,742	\$ 25,232,811	\$ 10,055,303	\$ 29,592,076	\$ (9,968,552)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (9,910,790)	\$ (57,762)	\$ (9,968,552)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	30,858,110	-	30,858,110
Motor vehicle and other excise taxes.....	1,795,866	-	1,795,866
Hotel/motel tax.....	30,648	-	30,648
Meals tax.....	195,945	-	195,945
Penalties and interest on taxes.....	207,677	-	207,677
Payments in lieu of taxes.....	482,657	-	482,657
Grants and contributions not restricted to specific programs.....	1,791,990	-	1,791,990
Unrestricted investment income.....	115,868	-	115,868
Miscellaneous.....	61,920	-	61,920
Total general revenues.....	35,540,681	-	35,540,681
Change in net position.....	25,629,891	(57,762)	25,572,129
<i>Net Position:</i>			
Beginning of year.....	47,249,041	27,382,342	74,631,383
End of year.....	\$ 72,878,932	\$ 27,324,580	\$ 100,203,512

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2013

ASSETS	General	Feeoffee's Trust	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 4,873,572	\$ 2,413,978	\$ 4,757,044	\$ 12,044,594
Investments.....	-	16,400,106	1,735,377	18,135,483
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	488,751	-	-	488,751
Tax liens.....	597,622	-	-	597,622
Motor vehicle and other excise taxes.....	222,989	-	-	222,989
Departmental and other.....	43,625	64,300	74,455	182,380
Intergovernmental.....	6,023,015	-	1,315,667	7,338,682
Mortgage notes.....	-	4,834,372	-	4,834,372
Use and occupancy loans.....	-	382,176	-	382,176
Loans.....	-	-	157,825	157,825
Tax foreclosures.....	27,589	-	-	27,589
TOTAL ASSETS.....	\$ 12,277,163	\$ 24,094,932	\$ 8,040,368	\$ 44,412,463
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 271,666	\$ -	\$ 25,002	\$ 296,668
Accrued payroll.....	144,613	-	14,937	159,550
Other liabilities.....	445,984	-	225	446,209
Deferred revenues.....	7,226,939	-	395,306	7,622,245
Notes payable.....	-	-	1,000,000	1,000,000
TOTAL LIABILITIES.....	8,089,202	-	1,435,470	9,524,672
FUND BALANCES:				
Nonspendable.....	-	21,795,016	735,962	22,530,978
Restricted.....	-	2,299,916	5,943,391	8,243,307
Assigned.....	1,186,808	-	-	1,186,808
Unassigned.....	3,001,153	-	(74,455)	2,926,698
TOTAL FUND BALANCES.....	4,187,961	24,094,932	6,604,898	34,887,791
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 12,277,163	\$ 24,094,932	\$ 8,040,368	\$ 44,412,463

See notes to basic financial statements.

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

JUNE 30, 2013

Total governmental fund balances.....	\$	34,887,791
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		64,381,788
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		7,622,245
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(146,681)
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.....	(25,266,500)	
Compensated absences.....	(1,358,702)	
Other postemployment benefits.....	<u>(7,241,009)</u>	
Net effect of reporting long-term liabilities.....		<u>(33,866,211)</u>
Net position of governmental activities.....	\$	<u>72,878,932</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

	General	Feoffee's Trust	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 30,663,319	\$ -	\$ -	\$ 30,663,319
Tax liens.....	235,848	-	-	235,848
Motor vehicle and other excise taxes.....	1,665,710	-	19,352	1,685,062
Charges for services.....	39,489	-	1,998,014	2,037,503
Hotel/motel tax.....	-	-	30,648	30,648
Meals tax.....	195,945	-	-	195,945
Penalties and interest on taxes.....	207,677	-	-	207,677
Payments in lieu of taxes.....	482,657	-	-	482,657
Licenses and permits.....	713,166	-	75,130	788,296
Fines and forfeitures.....	36,414	-	-	36,414
Intergovernmental.....	9,501,364	-	2,611,426	12,112,790
Departmental and other.....	337,608	-	80,639	418,247
Contributions.....	-	-	355,632	355,632
Investment income.....	55,494	362,028	60,374	477,896
Interest on mortgage and loans.....	-	413,865	-	413,865
Court ordered sale of Little Neck property.....	-	29,150,000	-	29,150,000
Use and occupancy payments.....	-	2,400,000	-	2,400,000
Other.....	228,641	130,695	99,520	458,856
TOTAL REVENUES.....	44,363,332	32,456,588	5,330,735	82,150,655
EXPENDITURES:				
Current:				
General government.....	333,685	-	162,524	496,209
Finance.....	1,095,529	-	-	1,095,529
Public safety.....	4,480,790	-	1,086,653	5,567,443
Education.....	21,983,600	-	3,761,662	25,745,262
Public works.....	3,554,147	-	339,008	3,893,155
Code enforcement.....	429,319	-	140,360	569,679
Planning and development.....	256,524	-	53,165	309,689
Human services.....	410,957	-	117,083	528,040
Library.....	547,872	-	22,092	569,964
Pension benefits.....	3,454,000	-	-	3,454,000
Property and liability insurance.....	183,013	-	-	183,013
Employee benefits.....	2,407,405	-	-	2,407,405
Feoffee's trust.....	-	6,986,316	-	6,986,316
Other.....	116,253	-	-	116,253
State and county charges.....	636,501	-	-	636,501
Debt service:				
Principal.....	2,904,400	-	-	2,904,400
Interest.....	1,086,400	-	-	1,086,400
TOTAL EXPENDITURES.....	43,880,395	6,986,316	5,682,547	56,549,258
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	482,937	25,470,272	(351,812)	25,601,397
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	-	525,000	525,000
Transfers in.....	712,219	-	1,478,940	2,191,159
Transfers out.....	(678,600)	(1,375,340)	(137,219)	(2,191,159)
TOTAL OTHER FINANCING SOURCES (USES).....	33,619	(1,375,340)	1,866,721	525,000
NET CHANGE IN FUND BALANCES.....	516,556	24,094,932	1,514,909	26,126,397
FUND BALANCES AT BEGINNING OF YEAR.....	3,671,405	-	5,089,989	8,761,394
FUND BALANCES AT END OF YEAR.....	\$ 4,187,961	\$ 24,094,932	\$ 6,604,898	\$ 34,887,791

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, 2013

Net change in fund balances - total governmental funds.....	\$	26,126,397
<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.....	1,358,445	
Depreciation expense.....	<u>(2,002,964)</u>	
Net effect of reporting capital assets.....		(644,519)
<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>		
		(615,643)
<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 position. 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>		
Proceeds from bonds and notes.....	(525,000)	
Debt service principal payments.....	<u>2,904,400</u>	
Net effect of reporting long-term debt.....		2,379,400
<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.....	(61,421)	
Net change in other postemployment benefit liability.....	(1,556,619)	
Net change in accrued interest on long-term debt.....	<u>2,296</u>	
Net effect of recording long-term liabilities.....		<u>(1,615,744)</u>
Change in net position of governmental activities.....	\$	<u><u>25,629,891</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION**

JUNE 30, 2013

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 873,051	\$ 447,425	\$ 148,904	\$ 1,469,380
Restricted cash and cash equivalents.....	-	-	173,301	173,301
Receivables, net of allowance for uncollectibles:				
User fees.....	540,072	181,934	2,007,663	2,729,669
Intergovernmental.....	95,210	28,493	-	123,703
Special assessments.....	-	5,943	-	5,943
Purchased power working capital and prepayments.....	-	-	1,757,442	1,757,442
Inventory.....	-	-	157,628	157,628
Total current assets.....	1,508,333	663,795	4,244,938	6,417,066
NONCURRENT:				
Restricted cash and cash equivalents.....	-	-	1,426,874	1,426,874
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	-	147,627	-	147,627
Special assessments.....	-	25,081	-	25,081
Capital assets, net of accumulated depreciation.....				
Nondepreciable.....	1,518,341	1,144,331	22,976	2,685,648
Depreciable.....	12,818,529	9,043,550	14,637,187	36,499,266
Total noncurrent assets.....	14,336,870	10,360,589	16,087,037	40,784,496
TOTAL ASSETS.....	15,845,203	11,024,384	20,331,975	47,201,562
LIABILITIES				
CURRENT:				
Warrants payable.....	50,688	333,956	1,749,263	2,133,907
Accrued payroll.....	16,816	9,238	25,231	51,285
Accrued interest.....	23,196	29,007	26,865	79,068
Customer deposits payable.....	-	-	105,872	105,872
Other liabilities.....	-	-	677,309	677,309
Compensated absences.....	55,239	23,875	12,474	91,588
Bonds payable.....	408,331	363,782	480,000	1,252,113
Total current liabilities.....	554,270	759,858	3,077,014	4,391,142
NONCURRENT:				
Compensated absences.....	40,561	9,014	112,262	161,837
Other postemployment benefits.....	145,070	76,932	39,821	261,823
Bonds payable.....	4,042,028	4,170,152	6,850,000	15,062,180
Total noncurrent liabilities.....	4,227,659	4,256,098	7,002,083	15,485,840
TOTAL LIABILITIES.....	4,781,929	5,015,956	10,079,097	19,876,982
NET POSITION				
Net investment in capital assets.....	10,181,240	5,905,510	7,330,163	23,416,913
Restricted for:				
Rate stabilization.....	-	-	1,613,502	1,613,502
Depreciation.....	-	-	45,372	45,372
Unrestricted.....	882,034	102,918	1,263,841	2,248,793
TOTAL NET POSITION.....	\$ 11,063,274	\$ 6,008,428	\$ 10,252,878	\$ 27,324,580

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
OPERATING REVENUES:				
Charges for services	\$ 2,436,582	\$ 1,361,036	\$ 14,654,952	\$ 18,452,570
Other.....	-	2,218	323,650	325,868
TOTAL OPERATING REVENUES	2,436,582	1,363,254	14,978,602	18,778,438
OPERATING EXPENSES:				
Cost of services and administration	1,929,546	1,114,339	13,492,371	16,536,256
Depreciation.....	526,792	380,877	907,320	1,814,989
TOTAL OPERATING EXPENSES	2,456,338	1,495,216	14,399,691	18,351,245
OPERATING INCOME (LOSS).....	(19,756)	(131,962)	578,911	427,193
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	36,038	7,047	13,722	56,807
Interest expense.....	(126,112)	(170,076)	(296,188)	(592,376)
Intergovernmental.....	-	50,614	-	50,614
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(90,074)	(112,415)	(282,466)	(484,955)
CHANGE IN NET POSITION.....	(109,830)	(244,377)	296,445	(57,762)
NET POSITION AT BEGINNING OF YEAR.....	11,173,104	6,252,805	9,956,433	27,382,342
NET POSITION AT END OF YEAR.....	\$ 11,063,274	\$ 6,008,428	\$ 10,252,878	\$ 27,324,580

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from customers and users.....	\$ 2,341,169	\$ 1,355,955	\$ 14,463,623	\$ 18,160,747
Payments to vendors.....	(996,080)	(515,831)	(11,827,694)	(13,339,605)
Payments to employees.....	(912,436)	(550,737)	(1,354,289)	(2,817,462)
NET CASH FROM OPERATING ACTIVITIES.....	432,653	289,387	1,281,640	2,003,680
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Proceeds from the issuance of bonds and notes.....	690,000	430,000	-	1,120,000
Intergovernmental grants.....	-	93,654	-	93,654
Acquisition and construction of capital assets.....	(265,591)	(818,399)	(982,374)	(2,066,364)
Principal payments on bonds and notes.....	(852,000)	(637,300)	(485,000)	(1,974,300)
Interest expense.....	(122,826)	(161,914)	(297,625)	(582,365)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(550,417)	(1,093,959)	(1,764,999)	(3,409,375)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Investment income.....	36,038	7,047	13,722	56,807
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(81,726)	(797,525)	(469,637)	(1,348,888)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	954,777	1,244,950	2,218,716	4,418,443
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 873,051	\$ 447,425	\$ 1,749,079	\$ 3,069,555
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>				
Operating income (loss).....	\$ (19,756)	\$ (131,962)	\$ 578,911	\$ 427,193
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	526,792	380,877	907,320	1,814,989
Changes in assets and liabilities:				
User fees.....	(95,413)	(13,400)	(356,447)	(465,260)
Special assessments.....	-	6,101	-	6,101
Purchased power working capital and prepayments.....	-	-	14,615	14,615
Deferred charges.....	-	-	132,697	132,697
Inventory.....	-	-	1,242	1,242
Warrants payable.....	28,416	56,380	159,027	243,823
Accrued payroll.....	(3,757)	(346)	(767)	(4,870)
Customer deposits payable and other liabilities.....	-	-	(158,532)	(158,532)
Accrued compensated absences.....	(14,599)	(15,260)	13,393	(16,466)
Other postemployment benefits.....	10,970	6,997	(9,819)	8,148
Total adjustments.....	452,409	421,349	702,729	1,576,487
NET CASH FROM OPERATING ACTIVITIES.....	\$ 432,653	\$ 289,387	\$ 1,281,640	\$ 2,003,680
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>				
Intergovernmental subsidy of debt service.....	\$ -	\$ 50,614	\$ -	\$ 50,614

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Other Postemployment Benefit Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 549,482	\$ 269,664	\$ 338,265
Investments:			
Equity Mutual Funds.....	391,053	-	-
Bond Mutual Funds.....	440,456	-	-
Equity Securities.....	12,286	-	-
TOTAL ASSETS.....	1,393,277	269,664	338,265
LIABILITIES			
Warrants payable.....	-	-	13,123
Liabilities due depositors.....	-	-	325,142
TOTAL LIABILITIES.....	-	-	338,265
NET POSITION			
Held in trust for OPEB benefits and other purposes.....	\$ <u>1,393,277</u>	\$ <u>269,664</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Other Postemployment Benefit Fund	Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Employer contributions.....	\$ 537,678	\$ -
Net investment income (loss):		
Investment income.....	69,599	21,106
TOTAL ADDITIONS.....	607,277	21,106
<u>DEDUCTIONS:</u>		
Educational scholarships.....	-	8,000
CHANGE IN NET POSITION.....	607,277	13,106
NET POSITION AT BEGINNING OF YEAR.....	786,000	256,558
NET POSITION AT END OF YEAR.....	\$ 1,393,277	\$ 269,664

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 position and the statement of changes in net position) 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 *Feoffee trust fund* is used to account for the activities of the Feoffees of the Grammar School in the Town of Ipswich Trust which was created by a court order to administer the bequest of William Paine in 1660 to benefit the Ipswich Public Schools.

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.

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. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market. Investments that do not have an established market are reported at estimated fair values.

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 Assessors 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.

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.

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.

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

Special assessments

The Town assesses sewer betterments in connection with certain sewer construction projects.

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

Mortgage notes

The mortgage notes were issued by the Feoffees trust for the sale of properties in Little Neck in accordance with the terms of the Trust Administration Order (TAO) and are 6% interest only for 5 years, with a 20 year fixed, amortizing loan option at the end of the 5 year term.

The Feoffees receive monthly interest payments from the mortgage borrowers

Use and occupancy loans

The use and occupancy loans were given by the Feoffees trust in accordance with the TAO and are fully amortizing 5 year loans at a fixed rate of 4%.

The Feoffees receive annual principal and interest payments from use and occupancy borrowers.

Loans

Loans receivable consist of community development first-time homebuyer and housing rehabilitation loans.

These loans are secured via the lien process 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. Deferred Outflows/Inflows of Resources***Government-Wide Financial Statements (Net Position)***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town did not have any items that qualify for reporting in this category.

I. 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.

J. 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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position 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.

K. 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 position. 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.

L. 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.

M. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

Net position reported as net investment in capital assets 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 position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has 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 also be 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 - nonexpendable” 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.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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.

N. 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 position. 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.

O. 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.

P. 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.

Q. 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.

R. Fund Deficits

The Police and Fire Detail funds reported within the nonmajor governmental funds reported a deficit fund balance of approximately \$74,000. The Town expects this deficit to be funded with future payments for the services provided.

S. 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.

Deposits and investments of the Other Postemployment Benefit (OPEB) Fund are held in the custody of the Town Treasurer and are included in the Town's deposit and investment disclosures below. At June 30, 2013 the OPEB Fund has deposits totaling \$549,482 and investments totaling \$843,795. The investments are comprised of \$403,339 of equity securities, and \$440,456 of mutual funds.

Deposits and investments of the Feoffees Trust are managed by the Feoffees under the Town's tax identification number. They are not held in the custody of the Town Treasurer and operate under the Investment Policy adopted by the Feoffees. Since deposits are held under the Town's tax identification number, deposits of the

Feoffees Trust are included within the Town’s Custodial Credit Risk disclosures below. Investments of the Feoffees Trust are reported separately in the Town’s investment disclosures below.

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 have a policy for custodial credit risk that all deposits be held in the name of the Town or in the Town’s federal identification number. At fiscal year-end, the carrying amount of deposits totaled \$15,754,661 and the bank balance totaled \$15,687,712. Of the bank balance, \$2,108,932 was covered by Federal Depository Insurance, \$12,678,350 was covered by the Depositors Insurance Fund, and \$900,430 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2013, 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.....	\$ 112,594	\$ -	\$ 112,594	\$ -
Government Sponsored Enterprises.....	75,519	-	75,519	-
Corporate Bonds.....	446,730	82,214	324,134	40,382
Total Debt Securities.....	634,843	\$ 82,214	\$ 512,247	\$ 40,382
<u>Other Investments:</u>				
Equity Securities.....	772,914			
Money Market Mutual Funds.....	103,773			
Mutual Funds.....	1,171,415			
MMDT.....	413,126			
Total Investments.....	\$ 3,096,071			

The Town participates in the MMDT cash portfolio which has an average maturity of less than 3 months.

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; \$112,594 in U.S. Treasury Notes, \$75,519 in Government Sponsored Enterprises, and \$446,730 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’s interest rate risk policy was set up to minimize interest rate risk by structuring the Town’s investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The Town also invests operating funds in shorter-term securities such as money market mutual funds or similar investment pools which limits the average maturity of the portfolio which limits the risk of changes in interest rates.

Credit Risk

The Town’s credit risk policy limits investments to certain securities, prequalifies the financial institution, and diversifies the investment portfolio minimizing losses from any one type of security or from any one issuer. At June 30, 2013, the Town’s investments were rated as follows:

<u>Quality Ratings</u>	<u>U.S. Treasury Notes</u>	<u>Government Sponsored Enterprises</u>	<u>Corporate Bonds</u>
AAA.....	\$ 112,594	\$ -	\$ 33,233
AA+.....	-	75,519	145,124
AA.....	-	-	25,997
A+.....	-	-	67,090
A.....	-	-	26,094
A-.....	-	-	102,975
BBB+.....	-	-	46,217
Fair Value.....	<u>\$ 112,594</u>	<u>\$ 75,519</u>	<u>\$ 446,730</u>

The Town’s investment in MMDT is unrated.

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’s concentration of credit risk policy diversifies the investment portfolio minimizing losses from any one type of security or from any one issuer. As of June 30, 2013, The Town does not have investments with a single issuer that represents 5 percent or more of the Town’s total investments.

Investments of the Feoffees Trust

The Feoffees have adopted an Investment Policy which sets forth both return objectives and asset allocation guidelines for the Trust based on long-term fundamental objectives. The Trust’s average annual total return objective over the long-term is to meet or exceed a proposed spending rate plus inflation, as defined by the Consumer Price Index, plus expenses.

In accordance with these goals, the Board adopted the following investment asset allocation parameters:

<u>Asset Class:</u>	<u>Allocation Range:</u>
Traditional Equity Securities.....	40% - 50%
Non-Traditional Equity Securities.....	15% - 25%
High Quality Fixed Income Securities.....	10% - 20%
Credit Opportunities.....	0% - 10%
Cash.....	5% - 10%
Illiquid Investments.....	0% - 5%
Real Assets.....	5% - 10%

For the initial five year investment period of the Trust, a substantial portion of the assets may be held in the form of mortgages granted to prior tenants of the land in Ipswich, until its sale in 2012. Most of these mortgages are for a five year term, at a 6% rate of interest with no principal payments over that period. As these mortgages are refinanced privately, and the original note is paid off, the proceeds from such payoffs will be added to the investment fund. While the mortgages are outstanding, they will be considered as part of the fixed income allocation.

The Trusts defines the investment asset classes as follows:

High Quality Fixed Income Securities.....	Investments in high quality fixed income debt instruments.
Traditional Equity Securities.....	Investments in both U.S. and international stocks.
Non-Traditional Equity Securities.....	Investments in long/short term hedge funds both U.S. and international.
Credit Opportunities.....	Investments in high yield debt, distressed debt, and similar debt instruments.
Real Assets.....	Investments in commodities, inflation-adjusted bonds, and real estate.
Money Market Mutual Funds.....	Investments in high quality, short-term debt instruments.

The Feoffees monitor compliance with their Investment Policy Statement (IPS) by reviewing the overall sector allocation of all investment sources on a quarterly basis. That allocation is compared to the acceptable range for each asset class as outlined in the IPS created by the Feoffees. In the event that any investment sector falls outside of the acceptable range set forth in the IPS, the Feoffees instruct their investment managers to reallocate accordingly. The Feoffees set out to craft an allocation strategy consistent with the Trust's stated goal of yearly distributions to the Ipswich schools in conjunction with the long term sustainability and growth of the Trust's corpus. In an effort to maintain sufficient liquidity in the Trust, The Feoffees monitor the balance between traditional and alternative asset classes as part of our quarterly review process.

The funds allocated to the investment managers as of June 30, 2013 are as follows:

<u>Investment Type</u>	<u>Market Value</u>
Equity Securities.....	\$ 6,705,210
Money Market Mutual Funds.....	136,402
Limited Partnerships.....	<u>9,558,494</u>
Total Investments.....	<u>\$ 16,400,106</u>

The Trust has entered into two Limited Partnerships with Aureus II and High Vista Strategies to manage approximately 58% of the Trust's endowment. Investments in the Limited Partnerships are lightly regulated and not readily marketable. The market values of assets under the management of the limited partnerships are determined by the General Partners of those partnerships. Each of the Limited Partnerships have been engaged to implement specific terms of the Trust's Investment Policy Statement. The Aureus II Limited Partnership comprises approximately 43% of the Trust's Limited Partnership investments. This fund provides exposure to both geographies outside of the United States and alternative asset classes, such as hedge funds, debt instruments and commodities. The High Vista Strategies Limited Partnership comprises the remaining 57% of the Trust's Limited Partnership investments. This fund was engaged to manage a broadly diversified set of asset classes including equities, fixed income securities and alternative investments with an emphasis on providing liquidity while controlling the risk of its portfolio composition and returns.

NOTE 3 – RECEIVABLES

At June 30, 2013, 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:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 491,694	\$ (2,943)	\$ 488,751
Tax liens.....	597,622	-	597,622
Motor vehicle and other excise taxes.....	247,164	(24,175)	222,989
Departmental and other.....	182,380	-	182,380
Intergovernmental.....	7,338,682	-	7,338,682
Mortgage notes.....	4,834,372	-	4,834,372
Use and occupancy loans.....	382,176	-	382,176
Loans.....	157,825	-	157,825
Total.....	<u>\$ 14,231,915</u>	<u>\$ (27,118)</u>	<u>\$ 14,204,797</u>

At June 30, 2013, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 2,731,989	\$ (2,320)	\$ 2,729,669
Special assessments.....	31,024	-	31,024
Intergovernmental.....	271,330	-	271,330
Total.....	<u>\$ 3,034,343</u>	<u>\$ (2,320)</u>	<u>\$ 3,032,023</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:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes....	\$ 370,107	\$ -	\$ 370,107
Tax liens	597,622	-	597,622
Motor vehicle and other excise taxes.....	222,989	-	222,989
Departmental and other.....	-	74,455	74,455
Intergovernmental.....	6,008,632	163,026	6,171,658
Loans.....	-	157,825	157,825
Tax foreclosures.....	27,589	-	27,589
Total.....	\$ 7,226,939	\$ 395,306	\$ 7,622,245

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 17,345,208	\$ -	\$ -	\$ 17,345,208
Construction in progress.....	1,040,445	528,049	(736,623)	831,871
Total capital assets not being depreciated.....	18,385,653	528,049	(736,623)	18,177,079
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	47,682,778	24,500	-	47,707,278
Machinery, equipment and vehicles.....	8,006,085	1,002,063	(188,324)	8,819,824
Infrastructure.....	10,884,588	540,456	-	11,425,044
Total capital assets being depreciated.....	66,573,451	1,567,019	(188,324)	67,952,146
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(13,217,712)	(1,177,490)	-	(14,395,202)
Machinery, equipment and vehicles.....	(4,550,416)	(596,307)	188,324	(4,958,399)
Infrastructure.....	(2,164,669)	(229,167)	-	(2,393,836)
Total accumulated depreciation.....	(19,932,797)	(2,002,964)	188,324	(21,747,437)
Total capital assets being depreciated, net.....	46,640,654	(435,945)	-	46,204,709
Total governmental activities capital assets, net.....	\$ 65,026,307	\$ 92,104	\$ (736,623)	\$ 64,381,788

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.....	-	34,212	-	34,212
Total capital assets not being depreciated.....	1,484,129	34,212	-	1,518,341
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	222,486	-	-	222,486
Machinery, equipment and vehicles.....	577,257	12,691	-	589,948
Infrastructure.....	22,882,016	218,688	-	23,100,704
Total capital assets being depreciated.....	23,681,759	231,379	-	23,913,138
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(160,191)	(4,450)	-	(164,641)
Machinery, equipment and vehicles.....	(407,943)	(9,588)	-	(417,531)
Infrastructure.....	(9,999,683)	(512,754)	-	(10,512,437)
Total accumulated depreciation.....	(10,567,817)	(526,792)	-	(11,094,609)
Total capital assets being depreciated, net.....	13,113,942	(295,413)	-	12,818,529
Total water enterprise fund capital assets, net.....	\$ 14,598,071	\$ (261,201)	\$ -	\$ 14,336,870
Sewer Enterprise Fund:				
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 871,907	\$ -	\$ -	\$ 871,907
Construction in progress.....	-	272,424	-	272,424
Total capital assets not being depreciated.....	871,907	272,424	-	1,144,331
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	47,194	-	-	47,194
Machinery, equipment and vehicles.....	355,148	-	-	355,148
Infrastructure.....	15,952,146	818,399	-	16,770,545
Total capital assets being depreciated.....	16,354,488	818,399	-	17,172,887
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(33,984)	(944)	-	(34,928)
Machinery, equipment and vehicles.....	(160,873)	(14,388)	-	(175,261)
Infrastructure.....	(7,553,603)	(365,545)	-	(7,919,148)
Total accumulated depreciation.....	(7,748,460)	(380,877)	-	(8,129,337)
Total capital assets being depreciated, net.....	8,606,028	437,522	-	9,043,550
Total sewer enterprise fund capital assets, net.....	\$ 9,477,935	\$ 709,946	\$ -	\$ 10,187,881

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.....	7,363,511	50,087	(23,210)	7,390,388
Transmission plant.....	1,943,868	-	-	1,943,868
Distribution plant.....	18,037,560	881,452	(713,081)	18,205,931
General plant.....	2,536,383	50,835	(45,626)	2,541,592
Total capital assets being depreciated.....	<u>29,881,322</u>	<u>982,374</u>	<u>(781,917)</u>	<u>30,081,779</u>
<u>Less accumulated depreciation for:</u>				
Production plant.....	(4,774,432)	(160,715)	23,210	(4,911,937)
Transmission plant.....	(453,074)	(92,470)	-	(545,544)
Distribution plant.....	(8,461,455)	(597,929)	713,081	(8,346,303)
General plant.....	(1,630,228)	(56,206)	45,626	(1,640,808)
Total capital assets being depreciated.....	<u>(15,319,189)</u>	<u>(907,320)</u>	<u>781,917</u>	<u>(15,444,592)</u>
Total capital assets being depreciated, net.....	<u>14,562,133</u>	<u>75,054</u>	<u>-</u>	<u>14,637,187</u>
Total municipal light enterprise fund capital assets, net.....	<u>\$ 14,585,109</u>	<u>\$ 75,054</u>	<u>\$ -</u>	<u>\$ 14,660,163</u>

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

Governmental Activities:

General government.....	\$ 148,160
Finance.....	7,759
Public safety.....	284,931
Education.....	1,087,767
Public works.....	363,005
Code enforcement.....	2,400
Planning and development.....	15,980
Human services.....	25,243
Library.....	67,719
Total depreciation expense - governmental activities.....	<u>\$ 2,002,964</u>

Business-Type Activities:

Water.....	\$ 526,792
Sewer.....	380,877
Municipal light.....	907,320
Total depreciation expense - business-type activities.....	<u>\$ 1,814,989</u>

NOTE 5 – INTERFUND TRANSFERS

There were no interfund receivables and/or payables between funds at June 30, 2013. Interfund transfers for the fiscal year ended June 30, 2012 are summarized as follows:

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 678,600	\$ 678,600 (1)
Feoffee's Trust Fund.....	575,000	800,340	1,375,340 (2)
Nonmajor Governmental Funds...	<u>137,219</u>	<u>-</u>	<u>137,219 (3)</u>
Total.....	<u>\$ 712,219</u>	<u>\$ 1,478,940</u>	<u>\$ 2,191,159</u>

- (1) Transfers from the general fund to various nonmajor capital project funds to fund new capital projects.
- (2) Transfer from the Feoffee's Trust to the Town's Feoffee fund as required by court judgment and trust administration order and to the general fund for the reimbursement of legal fees.
- (3) Transfers from the nonmajor governmental funds to the general fund to help fund the fiscal year 2013 operating budget and to fund a boat purchase from the waterways improvements and tourism development 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, 2013 is as follows:

Governmental Activities:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2012	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2013
BAN	MWPAT Loan.....	0	01/31/14	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000

Business-Type Activities:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2012	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2013
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	Sewer.....	0.75	06/28/13	430,000	-	430,000	-
	Total Business-Type.....			\$ 2,115,359	\$ -	\$ 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, 2013 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, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Municipal Purpose Bonds of 1999.....	2020	\$ 32,333,000	3.50 - 5.00	\$ 17,050,000	\$ -	\$ 1,795,000	\$ 15,255,000
Municipal Purpose Bonds of 2003.....	2018	847,240	2.35 - 4.00	402,000	-	67,000	335,000
Municipal Purpose Bonds of 2005.....	2020	525,000	2.75 - 5.00	280,000	-	35,000	245,000
Municipal Purpose Bonds of 2007.....	2027	1,615,000	4.00 - 5.00	1,187,500	-	81,000	1,106,500
Municipal Purpose Bonds of 2008.....	2018	400,000	3.25 - 5.00	240,000	-	40,000	200,000
Municipal Purpose Bonds of 2010.....	2025	1,382,000	2.00 - 5.00	960,000	-	185,000	775,000
Municipal Purpose Bonds of 2010.....	2029	6,181,400	2.00 - 5.00	6,011,400	-	616,400	5,395,000
Municipal Purpose Bonds of 2011.....	2030	1,600,000	2.00 - 3.25	1,515,000	-	85,000	1,430,000
Municipal Purpose Bonds of 2013.....	2023	525,000	1.75 - 2.00	-	525,000	-	525,000
Total Governmental.....				\$ 27,645,900	\$ 525,000	\$ 2,904,400	\$ 25,266,500

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014.....	\$ 3,028,000	\$ 1,013,441	\$ 4,041,441
2015.....	3,048,000	888,865	3,936,865
2016.....	3,068,000	757,657	3,825,657
2017.....	3,163,000	621,278	3,784,278
2018.....	3,222,000	475,463	3,697,463
2019.....	3,220,000	328,498	3,548,498
2020.....	3,310,000	192,505	3,502,505
2021.....	630,000	117,063	747,063
2022.....	500,000	97,151	597,151
2023.....	365,000	82,588	447,588
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.....	<u>\$ 25,266,500</u>	<u>\$ 4,817,250</u>	<u>\$ 30,083,750</u>

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, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Water Projects							
Land Acquisition.....	2018	\$ 306,112	2.35 - 4.00	\$ 132,000	\$ -	\$ 22,000	\$ 110,000
Water.....	2020	1,355,000	2.75 - 5.00	605,000	-	105,000	500,000
Water.....	2027	900,000	4.00 - 5.00	675,000	-	45,000	630,000
Water.....	2028	550,000	3.25 - 5.00	430,000	-	30,000	400,000
Water.....	2025	893,000	2.00 - 5.01	710,000	-	85,000	625,000
Water.....	2030	400,000	2.00 - 3.25	375,000	-	25,000	350,000
Water.....	2028	690,000	1.75-2.00	-	690,000	-	690,000
Water (MWPAT).....	2033	1,145,359	2.00	-	1,145,359	-	1,145,359
Total Water Enterprise.....				<u>2,927,000</u>	<u>1,835,359</u>	<u>312,000</u>	<u>4,450,359</u>
Sewer Projects							
Sewer 97-19 (MWPAT).....	2019	\$ 1,863,200	Variable	731,600	-	53,700	677,900
Sewer.....	2018	150,000	2.35 - 4.00	66,000	-	11,000	55,000
Sewer.....	2016	57,000	2.75 - 5.00	20,000	-	5,000	15,000
Sewer.....	2027	977,000	4.00 - 5.00	727,500	-	49,000	678,500
Sewer.....	2022	813,600	2.00 - 3.25	813,600	-	88,600	725,000
Sewer (MWPAT).....	2023	1,952,534	2.00	1,952,534	-	-	1,952,534
Sewer.....	2028	430,000	1.75-2.40	-	430,000	-	430,000
Total Sewer Enterprise.....				<u>4,311,234</u>	<u>430,000</u>	<u>207,300</u>	<u>4,533,934</u>
Municipal Light Projects							
Electric Sub Station and System Improvements.....	2028	\$ 6,000,000	3.25 - 4.10	4,800,000	-	300,000	4,500,000
Electric Sub Station and System Improvements.....	2025	600,000	2.00 - 5.01	520,000	-	40,000	480,000
Wind Turbine.....	2030	2,642,000	2.00 - 3.25	2,495,000	-	145,000	2,350,000
Total Municipal Light Enterprise.....				<u>7,815,000</u>	<u>-</u>	<u>485,000</u>	<u>7,330,000</u>
Total Enterprise Funds.....				<u>\$ 15,053,234</u>	<u>\$ 2,265,359</u>	<u>\$ 1,004,300</u>	<u>\$ 16,314,293</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>
2014..... \$	1,252,113	\$ 519,696	\$ 1,771,809
2015.....	1,222,937	489,126	1,712,063
2016.....	1,219,019	452,717	1,671,736
2017.....	1,215,262	414,967	1,630,229
2018.....	1,222,567	370,975	1,593,542
2019.....	1,185,935	330,114	1,516,049
2020.....	997,567	290,754	1,288,321
2021.....	940,666	254,644	1,195,310
2022.....	943,833	221,680	1,165,513
2023.....	872,067	192,700	1,064,767
2024.....	865,372	164,519	1,029,891
2025.....	868,749	136,284	1,005,033
2026.....	812,200	107,197	919,397
2027.....	788,224	79,221	867,445
2028.....	714,325	51,953	766,278
2029.....	333,006	27,778	360,784
2030.....	306,766	18,296	325,062
2031.....	180,608	9,935	190,543
2032.....	184,533	6,297	190,830
2033.....	188,544	2,582	191,126
Totals..... \$	<u>16,314,293</u>	<u>\$ 4,141,435</u>	<u>\$ 20,455,728</u>

The Town is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$176,120 and interest costs for \$74,466. The principal subsidies are guaranteed and therefore a \$176,120 intergovernmental receivable has been recorded in the sewer enterprise fund at June 30, 2013. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. There was no principal subsidy in fiscal year 2013. The fiscal year 2013 interest subsidy totaled \$50,614.

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 2013, \$1,389,000 of such assistance was received. Approximately \$9,728,000 will be received in future fiscal years. Of this amount, approximately \$3,719,000 represents reimbursement of long-term interest costs, and approximately \$6,009,000 represents reimbursement of approved construction costs. Accordingly, a \$6,009,000 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, 2013, the Town had the following authorized and unissued debt:

Purpose	Amount
Bridges.....	\$ 165,000
Open Space.....	6,385,000
Riverwalk.....	75,000
Water Mains.....	2,109,641
Street Reconstruction.....	5,000,000
Wastewater Treatment Plant.....	4,017,466
Septic System Repairs.....	1,000,000
Water Departmental Equipment Rehabilitation.....	1,767,000
Total.....	\$ <u>20,519,107</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Bonds payable.....	\$ 27,645,900	\$ 525,000	\$ (2,904,400)	\$ 25,266,500	\$ 3,028,000
Other postemployment benefits....	5,684,390	2,759,551	(1,202,932)	7,241,009	-
Compensated absences.....	1,297,281	1,089,030	(1,027,609)	1,358,702	939,301
Total governmental activity long-term liabilities.....	\$ <u>34,627,571</u>	\$ <u>4,373,581</u>	\$ <u>(5,134,941)</u>	\$ <u>33,866,211</u>	\$ <u>3,967,301</u>
Business-Type Activities:					
Bonds payable.....	\$ 15,053,234	\$ 2,265,359	\$ (1,004,300)	\$ 16,314,293	\$ 1,252,113
Other postemployment benefits....	253,675	248,260	(240,112)	261,823	-
Compensated absences.....	269,891	102,793	(119,259)	253,425	91,588
Total business-type activity long-term liabilities.....	\$ <u>15,576,800</u>	\$ <u>2,616,412</u>	\$ <u>(1,363,671)</u>	\$ <u>16,829,541</u>	\$ <u>1,343,701</u>

Long-term liabilities related to both governmental and business-type activities are normally paid from the General Fund and the Enterprise Funds, respectively.

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.

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 has classified its governmental fund balances with the following hierarchy.

	GOVERNMENTAL FUNDS			
	General	Feoffee's Trust	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Nonspendable:				
Permanent fund principal.....\$	-	\$ 21,795,016	\$ 735,962	\$ 22,530,978
Restricted for:				
Feoffee's Trust.....	-	2,299,916	-	2,299,916
Town revolving funds.....	-	-	147,079	147,079
Town gifts and grant funds.....	-	-	112,026	112,026
Town receipts reserved.....	-	-	330,764	330,764
Other Town special revenue.....	-	-	39,278	39,278
Open space land acquisition.....	-	-	128,491	128,491
School gifts and grant funds.....	-	-	962,743	962,743
School revolving funds.....	-	-	2,175,466	2,175,466
Ipswich affordable housing.....	-	-	264,994	264,994
Town capital projects.....	-	-	859,908	859,908
Expendable trust funds.....	-	-	922,642	922,642
Assigned to:				
General government.....	1,897	-	-	1,897
Finance.....	31,417	-	-	31,417
Public safety.....	50,656	-	-	50,656
Education.....	134,413	-	-	134,413
Public works.....	282,870	-	-	282,870
Code enforcement.....	5,591	-	-	5,591
Planning and development.....	29,641	-	-	29,641
Human services.....	16,846	-	-	16,846
Employee benefits.....	10,000	-	-	10,000
Property and liability insurance.....	34,262	-	-	34,262
Miscellaneous.....	4,488	-	-	4,488
Debt service interest.....	86,053	-	-	86,053
Balance the FY14 operating budget.....	498,674	-	-	498,674
Unassigned.....	3,001,153	-	(74,455)	2,926,698
TOTAL FUND BALANCES.....\$	<u>4,187,961</u>	<u>\$ 24,094,932</u>	<u>\$ 6,604,898</u>	<u>\$ 34,887,791</u>

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, 2013 is \$754,145.

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 \$3,454,000 for the fiscal year ended June 30, 2013, 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, 2013, 2012, and 2011 were \$2,291,498, \$2,108,849, and \$1,941,972, respectively, which equaled its required contribution for each fiscal year.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 2013, the Town’s age-adjusted contribution to the plan totaled \$1,357,044.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish a postemployment benefit trust fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During fiscal year 2013, the Town pre-funded future OPEB liabilities totaling approximately \$538,000 by contributing funds to the Other Postemployment Benefit Fund reported within the Fiduciary Funds financial statements. As of June 30, 2013, the balance of this fund totaled \$1.4 million.

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.....	\$ 2,661,309
Interest on net OPEB obligation.....	257,950
Adjustments to annual required contribution.....	(557,700)
Amortization of actuarial (gains)/losses.....	<u>646,252</u>
Annual OPEB cost (expense).....	3,007,811
Contributions made.....	(1,443,044)
Increase in net OPEB obligation.....	1,564,767
Net OPEB obligation - beginning of year.....	<u>5,938,065</u>
Net OPEB obligation - end of year.....	<u>\$ 7,502,832</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 2013 and the previous 4 years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 3,007,811	45.1%	\$ 7,502,832
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, 2013 is 25 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, 2013, 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, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

NOTE 13 – FEOFFEES TRUST

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.

In August, 2012, the sales of the 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 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 funds from free cash to fund the Feoffee’s legal issues. In accordance with the new trust agreement, the first payment of \$800,000 plus accrued interest was received by the schools in fiscal year 2013, and another \$800,000 plus accrued interest was received in the beginning of fiscal year 2014. During fiscal year 2013, \$575,000 was received by the Town as a partial reimbursement for legal expenses incurred. The two \$800,000 payments plus interest have been recorded in the nonmajor governmental funds. The \$575,000 has been reimbursed to the general fund.

In accordance with the new trust, the “Feoffees of the Grammar School in the Town of Ipswich Trust”, is a public body and an agency of the Town of the Town of Ipswich, Massachusetts. Accordingly, the Town has reported the new Feoffee trust as a major governmental fund in the fund based financial statements. As of June 30, 2013, the new trust reported a balance of \$24 million which is held in investments and mortgages and loans on the properties.

NOTE 14 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

During fiscal year 2013, the following GASB pronouncements were implemented:

- GASB Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.

- The GASB issued Statement #67, Financial Reporting for Pension Plans, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with Statement #68.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

***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 \$324,907 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, 2013 totaled \$1,458,230.

In addition to the working capital deposit the Department also has made other power supply related prepayments totaling approximately \$299,000.

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. There were no unbilled fuel costs at June 30, 2013.

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, 2013, 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, 2013, 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.....	7,363,511	50,087	(23,210)	7,390,388
Transmission plant.....	1,943,868	-	-	1,943,868
Distribution plant.....	18,037,560	881,452	(713,081)	18,205,931
General plant.....	2,536,383	50,835	(45,626)	2,541,592
Total capital assets being depreciated.....	29,881,322	982,374	(781,917)	30,081,779
<u>Less accumulated depreciation for:</u>				
Production plant.....	(4,774,432)	(160,715)	23,210	(4,911,937)
Transmission plant.....	(453,074)	(92,470)	-	(545,544)
Distribution plant.....	(8,461,455)	(597,929)	713,081	(8,346,303)
General plant.....	(1,630,228)	(56,206)	45,626	(1,640,808)
Total capital assets being depreciated.....	(15,319,189)	(907,320)	781,917	(15,444,592)
Total capital assets being depreciated, net.....	14,562,133	75,054	-	14,637,187
Total municipal light enterprise fund capital assets, net.....	\$ 14,585,109	\$ 75,054	\$ -	\$ 14,660,163

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 \$93,750 at June 30, 2013.

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 \$178,750 at June 30, 2013.

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, 2013 was \$1,613,502 and is reported as restricted net position in the Statement of Fund Net position. 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 \$207,000 for the year ended June 30, 2013, which represents approximately 8.23% of the System's assessment to the Town.

NOTE G – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The following schedules represent the components of the Department's annual Other Postemployment Benefits (OPEB) cost for the year, the percentage of the annual OPEB cost contributed, and the funding status as of the most recent actuarial valuation. Please refer back to Note 11 for the Town-wide disclosures relating to OPEB.

The components of the Department’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Department’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$	111,671
Interest on net OPEB obligation.....		3,536
Adjustments to annual required contribution.....		(7,647)
Amortization of actuarial (gains)/losses.....		<u>35,223</u>
Annual OPEB cost (expense).....		142,783
Contributions made.....		(152,602)
Increase (decrease) in net OPEB obligation.....		(9,819)
Net OPEB obligation - beginning of year.....		<u>49,640</u>
Net OPEB obligation - end of year.....	\$	<u><u>39,821</u></u>

The Department’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2013	\$ 142,783	106.9%	\$ 39,821

The funded status of the plan as of the most recent actuarial valuation dates is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
7/1/2011	\$ 94,677	\$ 1,874,000	\$ 1,779,323	5.1%	\$ 1,036,797	171.6%

NOTE H – LONG TERM DEBT

Details relating to the Department’s outstanding indebtedness at June 30, 2013 are as follows:

<u>Project</u>	<u>Maturities Through</u>	<u>Original Loan Amount</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2012</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2013</u>
Electric Sub Station and System Improvements.....	2028	\$ 6,000,000	3.25 - 4.10	\$ 4,800,000	\$ -	\$ 300,000	\$ 4,500,000
Electric Sub Station and System Improvements.....	2025	600,000	2.00 - 5.01	520,000	-	40,000	480,000
Wind Turbine.....	2030	2,642,000	2.00 - 3.25	<u>2,495,000</u>	-	<u>145,000</u>	<u>2,350,000</u>
Total Bonds Payable.....				<u>\$ 7,815,000</u>	<u>\$ -</u>	<u>\$ 485,000</u>	<u>\$ 7,330,000</u>

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>
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>7,330,000</u>	\$ <u>2,385,936</u>	\$ <u>9,715,936</u>

NOTE I – 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, 2013 under these arrangements are as follows:

Payment in lieu of taxes.....	\$ 324,907
Subsidized street lighting cost of power.....	49,757
Subsidized street lighting maintenance.....	66,967
Town salaries paid by the Department.....	56,810
Non-reimbursed services and materials provided to the Town.....	<u>34,304</u>
Total.....	\$ <u>532,745</u>

The Department bills Town departments for electric light usage. The amount included in revenue under this arrangement was \$643,813 for the fiscal year ended June 30, 2013 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 J – 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 K – BERKSHIRE WIND COOPERATIVE CORPORATION

The Ipswich Municipal Light Plant (Plant), 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

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, 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) the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 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. MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

Total capital expenditures for MMWEC’s Projects amounted to \$1,599,051,000, of which \$12,749,000 represents the amount associated with the Department’s share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC’s debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$284,005,000, of which \$2,128,000 is associated with the Department’s share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. After the July 1, 2013 principal payment MMWEC’s total future debt service requirement on outstanding bonds issued for the Projects is \$253,040,000, of which \$1,751,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of Ipswich Municipal Light Department’s required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2013 and estimated for future years is shown below.

For Years Ended June 30,	Annual Costs
2014.....	\$ 580,000
2015.....	435,000
2016.....	457,000
2017.....	249,000
2018.....	32,000
2019 to 2022.....	(2,000)
Total.....	<u>\$ 1,751,000</u>

In addition, under the PSA’s, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department’s total O&M costs including debt service under the PSAs were \$1,382,000 and \$1,499,000 for the years ended June 30, 2013 and 2012, respectively.

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, 2013

	Budgeted Amounts		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.....	\$ 30,409,144	\$ 30,627,544	\$ 30,663,319	\$ -	\$ 35,775
Tax liens.....	-	-	235,848	-	235,848
Motor vehicle and other excise taxes.....	1,612,000	1,612,000	1,665,710	-	53,710
Meals tax.....	165,000	165,000	195,945	-	30,945
Charges for services.....	30,000	30,000	39,489	-	9,489
Penalties and interest on taxes.....	134,147	134,147	207,677	-	73,530
Payments in lieu of taxes.....	427,000	427,000	482,657	-	55,657
Licenses and permits.....	549,800	549,800	713,166	-	163,366
Fines and forfeitures.....	54,000	54,000	36,414	-	(17,586)
Intergovernmental.....	5,981,195	5,981,195	6,047,364	-	66,169
Departmental and other.....	342,956	342,956	337,608	-	(5,348)
Investment income.....	40,000	40,000	47,764	-	7,764
Other.....	31,800	31,800	228,641	-	196,841
TOTAL REVENUES.....	39,777,042	39,995,442	40,901,602	-	906,160
EXPENDITURES:					
Current:					
General government.....	387,315	361,919	333,685	1,897	26,337
Finance.....	1,124,148	1,138,168	1,095,529	31,417	11,222
Public safety.....	4,345,794	4,553,857	4,480,790	50,656	22,411
Education.....	21,732,022	22,124,140	21,983,600	134,413	6,127
Public works.....	3,978,015	3,944,374	3,554,147	282,870	107,357
Code enforcement.....	441,669	441,669	429,319	5,591	6,759
Planning and development.....	289,604	289,604	256,524	29,641	3,439
Human services.....	367,909	434,376	410,957	16,846	6,573
Library.....	549,717	549,717	547,872	-	1,845
Employee benefits.....	2,459,514	2,358,592	2,321,405	10,000	27,187
Property and liability insurance.....	258,237	280,610	183,013	34,262	63,335
Miscellaneous.....	133,310	169,339	116,253	4,488	48,598
State and county charges.....	727,537	635,501	636,501	-	(1,000)
Debt service:					
Principal.....	2,904,400	2,904,400	2,904,400	-	-
Interest.....	1,172,458	1,172,458	1,086,400	86,053	5
TOTAL EXPENDITURES.....	40,871,649	41,358,724	40,340,395	688,134	330,195
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,094,607)	(1,363,282)	561,207	(688,134)	1,236,355
OTHER FINANCING SOURCES (USES):					
Transfers in.....	62,214	137,219	712,219	-	575,000
Transfers out.....	-	(890,600)	(890,600)	-	-
TOTAL OTHER FINANCING SOURCES (USES)..	62,214	(753,381)	(178,381)	-	575,000
NET CHANGE IN FUND BALANCE.....	(1,032,393)	(2,116,663)	382,826	(688,134)	1,811,355
BUDGETARY FUND BALANCE, Beginning of year.....	3,050,990	3,050,990	3,050,990	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 2,018,597	\$ 934,327	\$ 3,433,816	\$ (688,134)	\$ 1,811,355

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 plan 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
2013	\$ 22,770,925	\$ 22,770,925	100%	\$ 2,291,498	10.06%
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
2013	\$ 2,661,309	\$ 1,443,044	54%
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 ACCOUNTABILITY1. 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 2013 budget includes \$40.3 million in appropriations and other amounts to be raised and \$612,000 in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2013, Town Meeting approved supplemental appropriations totaling \$1.4 million.

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, 2013, is presented below:

Net change in fund balance, budgetary basis.....	\$	382,826
<u>Perspective difference:</u>		
Activity of the stabilization funds recorded in the general fund for GAAP.....		133,730
<u>Basis of accounting differences:</u>		
Net increase in revenues due to on-behalf payments.....		3,454,000
Net increase in recording expenditures due to on-behalf payments.....		<u>(3,454,000)</u>
Net change in fund balance, GAAP basis.....	\$	<u>516,556</u>

3. Appropriation Deficits

General fund expenditures exceeded budgeted appropriations for state and country charges. This is an allowable deficit as it represents an assessment from the Commonwealth.

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 .9%. 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 POSITION

JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 148,904	\$ 462,777
Restricted cash and cash equivalents.....	173,301	522,731
Receivables, net of allowance for uncollectibles:		
User fees.....	2,007,663	1,651,216
Purchased power working capital and prepayments.....	1,757,442	1,772,057
Inventory.....	157,628	158,870
Total current assets.....	<u>4,244,938</u>	<u>4,567,651</u>
NONCURRENT:		
Restricted cash and cash equivalents.....	1,426,874	1,233,208
Capital assets, net of accumulated depreciation.....		
Nondepreciable.....	22,976	22,976
Depreciable.....	14,637,187	14,562,133
Total noncurrent assets.....	<u>16,087,037</u>	<u>15,818,317</u>
TOTAL ASSETS.....	<u>20,331,975</u>	<u>20,385,968</u>
LIABILITIES		
CURRENT:		
Accounts payable.....	1,749,263	1,590,236
Accrued payroll.....	25,231	25,998
Accrued interest.....	26,865	28,302
Customer deposits payable.....	105,872	89,310
Other liabilities.....	677,309	719,706
Compensated absences.....	12,474	11,100
Bonds and notes payable.....	480,000	485,000
Total current liabilities.....	<u>3,077,014</u>	<u>2,949,652</u>
NONCURRENT:		
Compensated absences.....	112,262	100,243
Other postemployment benefits.....	39,821	49,640
Bonds and notes payable.....	6,850,000	7,330,000
Total noncurrent liabilities.....	<u>7,002,083</u>	<u>7,479,883</u>
TOTAL LIABILITIES.....	<u>10,079,097</u>	<u>10,429,535</u>
NET POSITION		
Net investment in capital assets.....	7,330,163	6,770,109
Restricted for:		
Rate stabilization.....	1,613,502	1,570,398
Depreciation.....	45,372	490,434
Unrestricted.....	1,263,841	1,125,492
TOTAL NET POSITION.....	<u>\$ 10,252,878</u>	<u>\$ 9,956,433</u>

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

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
<u>OPERATING REVENUES:</u>		
Charges for services	\$ 14,654,952	\$ 13,671,207
Other.....	323,650	112,824
TOTAL OPERATING REVENUES	14,978,602	13,784,031
<u>OPERATING EXPENSES:</u>		
Cost of services and administration	13,492,371	12,649,069
Depreciation.....	907,320	846,411
TOTAL OPERATING EXPENSES	14,399,691	13,495,480
OPERATING INCOME (LOSS).....	578,911	288,551
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Investment income.....	13,722	23,626
Interest expense.....	(296,188)	(309,642)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(282,466)	(286,016)
CHANGE IN NET POSITION.....	296,445	2,535
NET POSITION AT BEGINNING OF YEAR.....	9,956,433	9,953,898
NET POSITION AT END OF YEAR.....	\$ 10,252,878	\$ 9,956,433

MUNICIPAL LIGHT ENTERPRISE FUND
COMPARATIVE SCHEDULE OF SALES OF ELECTRICITY

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

<u>SALES OF ELECTRICITY:</u>	<u>2013</u>	<u>2012</u>
Residential.....	\$ 6,870,336	\$ 6,067,840
Commercial.....	833,641	739,774
Industrial.....	6,683,970	6,209,961
Municipal.....	578,174	554,343
Private Lighting.....	34,289	33,649
Street Lights.....	<u>65,640</u>	<u>65,640</u>
TOTAL SALES OF ELECTRICITY.....	<u>\$ 14,654,952</u>	<u>\$ 13,671,207</u>

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

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
<u>Power Production Expenses:</u>		
Purchased power.....	\$ 10,897,178	\$ 10,062,865
Other power expenses.....	323,469	427,534
Total Power Production Expenses.....	<u>11,220,647</u>	<u>10,490,399</u>
<u>Distribution Expenses:</u>		
Station expenses.....	84,238	85,858
Customer installation expenses.....	27,770	23,140
Miscellaneous distribution expense.....	155,066	142,471
Maintenance of overhead lines.....	624,540	596,516
Maintenance of street lights and signal systems.....	17,125	2,210
Total Distribution Expenses.....	<u>908,739</u>	<u>850,195</u>
<u>Customer Account Expenses:</u>		
Customer records and collection.....	139,074	135,312
Uncollectible accounts.....	25,852	4,271
Total Customer Account Expenses.....	<u>164,926</u>	<u>139,583</u>
<u>Administrative and General Expenses:</u>		
Payments in lieu of taxes.....	324,907	320,385
Administrative and general salaries.....	385,151	377,163
Office supplies and expenses.....	103,155	111,704
Outside services.....	63,756	67,400
Property and general insurance.....	76,191	56,163
Employee's pensions and benefits.....	204,748	194,124
Miscellaneous general expense.....	40,151	41,953
Total Administrative and General Expenses.....	<u>1,198,059</u>	<u>1,168,892</u>
TOTAL OPERATION AND MAINTENANCE EXPENSES... \$	<u><u>13,492,371</u></u>	<u><u>12,649,069</u></u>