

***TOWN OF IPSWICH, MASSACHUSETTS***

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

***YEAR ENDED JUNE 30, 2014***

TOWN OF IPSWICH, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

**TABLE OF CONTENTS**

|  |    |
|--|----|
| Independent Auditor's Report.....  | 1  |
| Management's Discussion and Analysis .....   | 3  |
| Basic Financial Statements .....   | 14 |
| Statement of Net Position .....  | 15 |
| Statement of Activities .....  | 16 |
| Governmental Funds – Balance Sheet.....  | 18 |
| Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position.....                                   | 19 |
| Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balances.....   | 20 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities ..... | 21 |
| Proprietary Funds – Statement of Net Position .....  | 22 |
| Proprietary Funds – Statement of Revenues, Expenses and Changes in Net Position.....   | 23 |
| Proprietary Funds – Statement of Cash Flows.....   | 24 |
| Fiduciary Funds – Statement of Fiduciary Net Position.....   | 25 |
| Fiduciary Funds – Statement of Changes in Fiduciary Net Position .....   | 26 |
| Notes to Basic Financial Statements .....  | 27 |
| Notes to Basic Financial Statements – Ipswich Municipal Light Department.....  | 58 |
| Required Supplementary Information.....  | 69 |
| General Fund Budgetary Comparison Schedule.....  | 70 |
| General Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....   | 71 |
| Retirement System Schedules.....   | 72 |
| Retirement System Schedule of Funding Progress .....   | 73 |
| Retirement System Schedule of Employer Contributions .....   | 74 |
| Other Postemployment Benefit Plan Schedules.....   | 75 |
| Other Postemployment Benefit Plan Schedule of Funding Progress and Employer Contributions.....   | 76 |
| Other Postemployment Benefit Plan Actuarial Methods and Assumptions .....  | 77 |
| Notes to Required Supplementary Information.....   | 78 |
| Additional Information – Municipal Light Enterprise Fund Schedules .....   | 81 |
| Comparative Schedule of Net Position .....   | 82 |
| Comparative Schedule of Revenues, Expenses and Changes in Net Position .....   | 83 |
| Comparative Schedule of Sales of Electricity .....   | 84 |
| Comparative Schedule of Cost of Service and Administration .....   | 85 |



100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
[www.powersandsullivan.com](http://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, 2014, 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, 2014, 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 budgetary comparison information 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.

### *Additional 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 the 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 15, 2014 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 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 Town of Ipswich, Massachusetts' internal control over financial reporting and compliance.

*Powers & Sullivan LLC*

December 15, 2014

***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 year ended June 30, 2014. 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 year by \$103.4 million (net position).
- Of this amount, 3% or \$2.9 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 \$3.2 million during 2014. Of this increase, \$2.8 million is related to the increase in value of the Feoffee's Trust fund.
- At the close of the current year, the Town's governmental funds reported an ending total fund balance of \$37 million, an increase of approximately \$2.2 million in comparison with the prior year. Approximately \$3.9 million represents unassigned fund balance of the general fund, while \$656,000 is assigned for 2015 expenditures and \$50,000 is committed for future expenditures. The Feoffee's trust major fund reported a nonspendable balance of \$21.8 million and a restricted balance of \$5.1 million. Approximately \$5 million represents restricted fund balance in the nonmajor governmental funds, while the nonspendable portion totals approximately \$747,000 and the unassigned balance is a deficit totaling \$237,000.
- At the end of the year, unassigned fund balance for the general fund totaled \$3.9 million or 9% of total general fund expenditures.
- The Town's total gross bonded debt decreased by \$4.3 million during the current 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, liabilities, and deferred inflows/outflows of resources, with the difference 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 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 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 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 \$75.8 million at the close of 2014.

|  | 2014<br>Governmental<br>Activities | 2013<br>Governmental<br>Activities |
|--|------------------------------------|------------------------------------|
| <b>Assets:</b>                               |                                    |                                    |
| Current assets.....                          | \$ 39,447,926                      | \$ 34,437,239                      |
| Noncurrent assets (excluding capital).....   | 7,388,488                          | 9,975,224                          |
| Capital assets.....                          | 64,183,737                         | 64,381,788                         |
| <b>Total assets.....</b>                     | <b>111,020,151</b>                 | <b>108,794,251</b>                 |
| <b>Liabilities:</b>                          |                                    |                                    |
| Current liabilities (excluding debt).....    | 2,289,447                          | 1,988,409                          |
| Noncurrent liabilities (excluding debt)..... | 9,592,513                          | 7,660,410                          |
| Current debt.....                            | 4,103,000                          | 4,028,000                          |
| Noncurrent debt.....                         | 19,190,500                         | 22,238,500                         |
| <b>Total liabilities.....</b>                | <b>35,175,460</b>                  | <b>35,915,319</b>                  |
| <b>Net Position:</b>                         |                                    |                                    |
| Net investment in capital assets.....        | 46,040,493                         | 44,123,920                         |
| Restricted.....                              | 29,948,036                         | 27,251,124                         |
| Unrestricted.....                            | (143,838)                          | 1,503,888                          |
| <b>Total net position.....</b>               | <b>\$ 75,844,691</b>               | <b>\$ 72,878,932</b>               |

Net position of \$46 million (61%) 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, \$30 million (39%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* may be used to meet the government's ongoing obligations to citizens and creditors, this portion of net position had a year-end deficit balance of \$144,000.

Governmental activities assets exceeded liabilities by \$75.8 million at June 30, 2014. The governmental activities net position increased by \$3 million in 2014. The main reason for the change is that the Feoffee's Trust fund reported a \$3.5 million increase in investment income and an overall decrease in expenditures as the fund reported one-time activity in FY13 when it was established. Other key reasons for the change in net position include the retirement of approximately \$3 million in outstanding debt, increasing net position, offset with the recognition of other postemployment benefit expenses of \$2.2 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 \$34.7

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, 2014, the Town has pre-funded \$2 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 \$2.2 million for governmental activities for the year ended June 30, 2014. As of June 30, 2014, the Town has recognized a \$9.4 million governmental OPEB liability in the statement of net position.

|  | 2014<br>Governmental<br>Activities | 2013<br>Governmental<br>Activities |
|--|------------------------------------|------------------------------------|
| <b>Program revenues:</b>   |                                    |                                    |
| Charges for services.....  | \$ 3,445,276                       | \$ 6,454,373                       |
| Operating grants and contributions.....                              | 13,018,593                         | 9,947,882                          |
| Capital grants and contributions.....                                | 901,328                            | 29,592,076                         |
| <b>General revenues:</b>   |                                    |                                    |
| Real estate and personal property taxes.....                         | 31,966,818                         | 30,858,110                         |
| Motor vehicle and other excise taxes.....                            | 1,853,332                          | 1,795,866                          |
| Hotel/motel tax.....   | 39,861                             | 30,648                             |
| Meals tax.....   | 199,132                            | 195,945                            |
| Penalties and interest on taxes.....                                 | 207,076                            | 207,677                            |
| Payments in lieu of taxes.....                                       | 468,330                            | 482,657                            |
| Grants and contributions not restricted to<br>specific programs..... | 1,925,970                          | 1,791,990                          |
| Unrestricted investment income.....                                  | 265,948                            | 115,868                            |
| Gain on disposal of capital assets.....                              | 8,706                              | -                                  |
| Miscellaneous.....   | 80,454                             | 61,920                             |
| <b>Total revenues.....</b>   | <b>54,380,824</b>                  | <b>81,535,012</b>                  |
| <b>Expenses:</b>   |                                    |                                    |
| General government.....  | 1,053,965                          | 797,428                            |
| Finance.....   | 1,366,384                          | 1,422,429                          |
| Public safety.....   | 6,493,964                          | 6,477,489                          |
| Education.....   | 33,737,406                         | 32,101,537                         |
| Public works.....  | 4,836,072                          | 4,375,576                          |
| Code enforcement.....  | 720,535                            | 801,521                            |
| Planning and development.....  | 442,816                            | 426,587                            |
| Human services.....  | 733,712                            | 646,957                            |
| Library.....   | 854,632                            | 785,177                            |
| Fee/fee's trust fund.....  | 135,764                            | 6,986,316                          |
| Interest.....  | 970,637                            | 1,084,104                          |
| <b>Total expenses.....</b>   | <b>51,345,887</b>                  | <b>55,905,121</b>                  |
| <b>Excess (Deficiency) before transfers.....</b>                     | <b>3,034,937</b>                   | <b>25,629,891</b>                  |
| <b>Transfers.....</b>  | <b>(69,178)</b>                    | <b>-</b>                           |
| <b>Change in net position.....</b>                                   | <b>2,965,759</b>                   | <b>25,629,891</b>                  |
| <b>Net position, beginning of year.....</b>                          | <b>72,878,932</b>                  | <b>47,249,041</b>                  |
| <b>Net position, end of year.....</b>                                | <b>\$ 75,844,691</b>               | <b>\$ 72,878,932</b>               |

During 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 governmental fund in FY13 caused an increase of \$2.8 million in charges for services (use and occupancy payments and interest on outstanding mortgages and loans), \$518,000 in operating grants and contributions (investment earnings), \$29.2 million in capital grants and contributions (from the initial sale of properties held by the previous Trust), and \$7 million in direct expenses related to the formation of the Trust. In FY14, the operations of the Trust included \$227,000 of charges for services (interest on outstanding mortgages and loans), \$3.5 million in operating grants and contributions (gains on investments), and \$15,000 in capital grants and contributions. As some of the initial mortgages and loans have been paid down and the initial proceeds of the Trust have been invested, the Trust's activity has shifted to consist mainly of the changes in the value of the investments and the Trust's annual payments to the Ipswich Public Schools.

### **Business-type Activities**

For the Town's business-type activities, assets exceeded liabilities by \$27.6 million at the close of 2014.

|  | 2014<br>Business-type<br>Activities | 2013<br>Business-type<br>Activities |
|--|-------------------------------------|-------------------------------------|
|  | <u>                    </u>         | <u>                    </u>         |
| <b>Assets:</b>                               |                                     |                                     |
| Current assets.....                          | \$ 7,277,985                        | \$ 6,417,066                        |
| Noncurrent assets (excluding capital).....   | 1,419,747                           | 1,599,582                           |
| Capital assets.....                          | <u>41,465,299</u>                   | <u>39,184,914</u>                   |
| <b>Total assets.....</b>                     | <b><u>50,163,031</u></b>            | <b><u>47,201,562</u></b>            |
| <b>Liabilities:</b>                          |                                     |                                     |
| Current liabilities (excluding debt).....    | 2,864,027                           | 3,033,157                           |
| Noncurrent liabilities (excluding debt)..... | 616,980                             | 529,532                             |
| Current debt.....                            | 5,264,728                           | 1,252,113                           |
| Noncurrent debt.....                         | <u>13,839,243</u>                   | <u>15,062,180</u>                   |
| <b>Total liabilities.....</b>                | <b><u>22,584,978</u></b>            | <b><u>19,876,982</u></b>            |
| <b>Net Position:</b>                         |                                     |                                     |
| Net investment in capital assets.....        | 23,057,646                          | 23,416,913                          |
| Restricted.....                              | 1,435,702                           | 1,658,874                           |
| Unrestricted.....                            | <u>3,084,705</u>                    | <u>2,248,793</u>                    |
| <b>Total net position.....</b>               | <b><u>\$ 27,578,053</u></b>         | <b><u>\$ 27,324,580</u></b>         |

|   | 2014<br>Business-type<br>Activities | 2013<br>Business-type<br>Activities |
|---|-------------------------------------|-------------------------------------|
| <b>Program revenues:</b>                  |                                     |                                     |
| Charges for services.....                 | \$ 20,497,328                       | \$ 18,778,438                       |
| Operating grants and contributions.....   | 117,798                             | 107,421                             |
| <b>Total revenues.....</b>                | <b>20,615,126</b>                   | <b>18,885,859</b>                   |
| <b>Expenses:</b>                          |                                     |                                     |
| Water enterprise.....                     | 2,657,116                           | 2,582,450                           |
| Sewer enterprise.....                     | 1,774,251                           | 1,665,292                           |
| Municipal light enterprise.....           | 15,999,464                          | 14,695,879                          |
| <b>Total expenses.....</b>                | <b>20,430,831</b>                   | <b>18,943,621</b>                   |
| <b>Excess before transfers.....</b>       | <b>184,295</b>                      | <b>(57,762)</b>                     |
| <b>Transfers.....</b>                     | <b>69,178</b>                       | <b>-</b>                            |
| <b>Change in net position.....</b>        | <b>253,473</b>                      | <b>(57,762)</b>                     |
| <b>Net assets, beginning of year.....</b> | <b>27,324,580</b>                   | <b>27,382,342</b>                   |
| <b>Net assets, end of year.....</b>       | <b>\$ 27,578,053</b>                | <b>\$ 27,324,580</b>                |

Business-type net position of \$23 million (84%) represents investments in capital assets, net of any related debt. Net position of \$1.4 million (5%) is restricted for the Light Department's Rate Stabilization and Capital Depreciation funds. The remaining \$3.1 million (11%) 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 increased by \$253,000. 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 year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$37 million, an increase of \$2.2 million from the prior year.

The general fund is the Town's chief operating fund. At the end of the current year, unassigned fund balance of the general fund totaled \$3.9 million. The total general fund balance of \$4.6 million increased by \$416,000 during 2014. This increase is primarily due to a \$546,000 increase in the Town's stabilization fund which is reported within the general fund. 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 9% of total general fund expenditures, while total fund balance represents 10% of that same amount.

The Feoffees Trust major fund is used to account for funds held by the Feoffee's of the Grammar School in the Town of Ipswich Trust which was established pursuant to a court order which dissolved the prior Feoffee's 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 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 \$3.8 million, mostly from investment income, and expenditures totaled \$139,000. Additionally, the Trust transferred \$806,000 to the Ipswich School Department in accordance with the court's requirements. The ending trust balance totaled \$26.9 million.

Nonmajor governmental funds reported a decrease of \$1.1 million, which is primarily the result of a \$1.1 million increase in expenditures related to school projects, offset by the \$806,000 payment received by the Feoffee's Trust fund and a \$670,000 decrease in school revolving funds.

### ***General Fund Budgetary Highlights***

The increase of \$1.6 million between the original budget and the final amended budget consisted of \$1.6 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 \$41.1 million in departmental appropriations and \$688,000 in amounts carried forward from the 2013 budget.

The final budget included the use of approximately \$1.6 million in available funds. Total revenues came in over budget by approximately \$1.2 million, and actual expenditures were under budget by \$308,000. The net result was a decrease in the general fund balance of \$130,000 on a budgetary basis.

### ***Capital Asset and Debt Administration***

During the current year the Town expended \$1.9 million on governmental activities capital assets consisting mainly of \$1.2 million for machinery, equipment and vehicles, and \$738,000 for ongoing road construction projects classified as construction in progress. Business-type activities expended \$4.5 million for capital assets. Of this amount, the water enterprise fund expended \$411,000 for infrastructure and equipment; the sewer enterprise fund expended \$3.4 million which was mainly for infrastructure; and the electric light department expended \$684,000 mainly for distribution plant upgrades.

The Town's governmental funds had total bonded debt outstanding of \$22.2 million at the end of the current year. Of this amount, \$15.4 million is related to school projects, \$4.5 million relates to land purchases, \$190,000 relates to library renovations, \$660,000 relates to the purchase of equipment, and \$1.5 million relates to other capital related projects. During 2014 the Town paid down \$3 million of outstanding bonds. The enterprise funds had \$15.1 million of debt outstanding at the end of the current year. Of this amount, \$4 million related to water, \$4.2 million related to sewer, and \$6.9 million related to electric light projects. The enterprise funds redeemed \$1.3 million in long term bonds.

The water and sewer enterprise funds issued \$260,000 and \$3.8 million in short term debt during the year to finance ongoing projects in anticipation of permanent financing.

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 2015 in the amount of \$20,998,520 which included \$15,981,742 for the Municipal Operating budget plus \$86,629 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 (\$1,495,859), Planning & Community Development (\$519,326), Public Safety (\$4,575,843), Public Works (\$3,832,824), Community & Cultural Services (\$1,283,444) and Benefits & Other (\$4,361,075).

Also included in this omnibus budget was \$2,993,840 for the Water Department and \$1,936,309 for the Wastewater Department. The Water budget will be offset in part by a water surplus of 217,658 and the Wastewater budget will be offset in part by a wastewater surplus of \$185,170. The balance of Water and Sewer budget appropriations will be met by revenues of each department during 2015.

Town Meeting approved the School's Operating Budget for \$25,875,094 for 2015 which includes \$2,534,525 for the High School/Middle School Capital Project debt service.

Town Meeting approved the capital plan for 2015 for \$513,971 of which \$498,971 was funded from the Capital Stabilization Fund and \$15,000 from the Waterways Improvement Fund. 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.

Town Meeting also approved from free cash the amount of \$89,000 for the interior painting of buildings: \$24,000 for the Library; \$35,000 for the Middle School/High School and \$30,000 for Doyon School; and an additional amount of \$34,100 was appropriated for an upgrade to the Municipal website for design, hosting and related website services.

The Annual Town Meeting approved an appropriation of \$422,303 as Ipswich's share of the operating and debt service expenses of the Whittier Regional Vocational Technical High School for 2015. Town Meeting also approved an appropriation of \$295,020 to fund the Town's share of the annual operation and debt service of The Essex North Shore Agricultural & Technical School District (formerly Essex Regional Technical Institute). Both appropriations were funded by taxes.

Town Meeting appropriated \$444,004 under the provisions of Chapter 90 of the General Laws for 2015 and amended the prior year's appropriation down from \$663,485 to \$442,110 since the State reduced the amount the Town will receive

Under Article 28 of the Annual Town Meeting, \$25,000 was appropriated from free cash and transferred into the Other Post-Employment Benefits Fund (OPEB) and Article 29 transferred \$25,000 from free cash into the Stabilization Fund. The balances in the OPEB and Stabilization Funds are \$2 million and \$1.3 million, respectively. 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.

Article 32 was approved by Town Meeting to form a School Audit Ad Hoc Committee to identify specific areas of the school's operation and organization to be audited for efficiencies, cost saving measures and synergies. The Committee shall prepare proposals (RFP's) for an audit based on the protocols, procedures, timelines, and

metrics determined and report its findings to the Finance Committee and the next Town Meeting. The amount of \$50,000 was appropriated from free cash to fund these endeavors.

The following articles presented to Town Meeting for approval failed to pass: Article 19 Public Safety Facility Feasibility Study for the sum of \$100,000; Article 20 Athletic Field Engineering for Mile Lane for the sum of \$70,000; Article 30 Homeowner Protection; Article 34 Reconsideration of Linebrook Road Projects for the sum of \$3,000,000 for reconstruction and \$650,000 for a section of water main failed to be rescinded. Article 10 School Operating Override for \$2,750,000 passed Town Meeting vote but failed at the Election.

At the Special Town Meeting on October 21, 2014, Article 1, an amendment to the Town's FY 2015 budget was appropriated for \$24,993 and Article 2 amended the School's FY 2015 budget for \$89,204. The appropriations will be offset by additional State Cherry Sheet revenue that was approved through the Final State Budget.

Article 3 appropriated \$300,000 from free cash to the School budget to fund unexpected expenditures in FY 2015 due to special education student programming needs.

Article 4 amended the Town's action taken under Article 16 of the May 13, 2014 Annual Town Meeting (Annual Capital Plan) by voting that any funds remaining from the transfer of \$498,971 from the Capital Stabilization fund for capital projects be returned to the Capital Stabilization Fund, and that any funds remaining from the transfer of \$15,000 from the Waterways Improvement Fund for floating docks be returned to the Waterways Fund.

Article 5 appropriated \$21,300 from Free Cash for extraordinary repairs to school and town facilities as follows: Winthrop School - \$4,200 to remove and replace urinals; Doyon School - \$4,600 to repair and replace front gutters; Middle/High School - \$3,000 to repair and replace sinks in the women's locker rooms; and Town Hall - \$9,500 to reinforce the floor in Code Enforcement.

Article 6 appropriated \$107,000 from free cash to cover unbudgeted and unanticipated costs related to response and clean-up during and after the storms of September 6, 2014; to repair and upgrade radio antenna systems; and to purchase and install a generator for the police station; or take any action relative thereto.

Article 7 appropriated \$650,000 from free cash to the Capital Stabilization Fund to set aside funds for continued funding of prioritized capital projects which will be appropriated at the Annual Town Meeting in May 2015.

Article 8 appropriated \$100,000 from free cash to the Other Postemployment Benefits (OPEB) Fund to continue funding our OPEB liability as funds are available.

Article 9 approved the adoption of MGL Chapter 44 Section 53F-1/2 to establish an enterprise fund for the operation of the Water Department.

Article 10 appropriated \$945,000 to pay the costs of a feasibility study for the Winthrop Elementary School. The Town may be eligible for a grant from the Massachusetts School Building Authority (MSBA). The MSBA grant program is a non-entitlement, discretionary program based on need, as determined by the MSBA, and any costs the town incurs in excess of any grant approved by and received from the MSBA shall be the sole responsibility of the town.

Over the course of several years, Town Meeting had appropriated \$900,000 from free cash to fund the Feoffee's legal issues. As of June 30, 2014, the balance remaining to be paid back to the Town from the School is \$182,770.

## ***Requests for Information***

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

# ***Basic Financial Statements***

**STATEMENT OF NET POSITION**

JUNE 30, 2014

|  | <i>Primary Government</i>  |                             |                       |
|--|----------------------------|-----------------------------|-----------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                 |
| <b>ASSETS</b>  |                            |                             |                       |
| <b>CURRENT:</b>                                      |                            |                             |                       |
| Cash and cash equivalents.....                       | \$ 10,919,353              | \$ 2,133,562                | \$ 13,052,915         |
| Restricted cash and cash equivalents.....            | -                          | 383,998                     | 383,998               |
| Investments.....                                     | 24,326,205                 | -                           | 24,326,205            |
| Receivables, net of allowance for uncollectibles:    |                            |                             |                       |
| Real estate and personal property taxes.....         | 420,630                    | -                           | 420,630               |
| Tax and utility liens.....                           | 553,097                    | -                           | 553,097               |
| Motor vehicle and other excise taxes.....            | 117,600                    | -                           | 117,600               |
| User fees.....                                       | -                          | 2,836,961                   | 2,836,961             |
| Departmental and other.....                          | 203,820                    | -                           | 203,820               |
| Intergovernmental.....                               | 2,804,423                  | 27,810                      | 2,832,233             |
| Special assessments.....                             | -                          | 5,943                       | 5,943                 |
| Use and occupancy loans.....                         | 62,204                     | -                           | 62,204                |
| Loans.....   | 10,575                     | -                           | 10,575                |
| Tax foreclosures.....                                | 30,019                     | -                           | 30,019                |
| Purchased power working capital and prepayments..... | -                          | 1,737,667                   | 1,737,667             |
| Inventory.....                                       | -                          | 152,044                     | 152,044               |
| <b>NONCURRENT:</b>                                   |                            |                             |                       |
| Restricted assets:                                   |                            |                             |                       |
| Cash and cash equivalents.....                       | -                          | 1,280,792                   | 1,280,792             |
| Receivables, net of allowance for uncollectibles:    |                            |                             |                       |
| Intergovernmental.....                               | 4,291,880                  | 119,817                     | 4,411,697             |
| Special assessments.....                             | -                          | 19,138                      | 19,138                |
| Mortgage notes.....                                  | 2,776,202                  | -                           | 2,776,202             |
| Use and occupancy loans.....                         | 173,156                    | -                           | 173,156               |
| Loans.....   | 147,250                    | -                           | 147,250               |
| Capital assets:                                      |                            |                             |                       |
| Nondepreciable.....                                  | 18,142,616                 | 2,413,224                   | 20,555,840            |
| Depreciable.....                                     | 46,041,121                 | 39,052,075                  | 85,093,196            |
| <b>TOTAL ASSETS.....</b>                             | <b>111,020,151</b>         | <b>50,163,031</b>           | <b>161,183,182</b>    |
| <b>LIABILITIES</b>                                   |                            |                             |                       |
| <b>CURRENT:</b>                                      |                            |                             |                       |
| Warrants payable.....                                | 676,146                    | 1,827,244                   | 2,503,390             |
| Accrued payroll.....                                 | 183,928                    | 60,688                      | 244,616               |
| Accrued interest.....                                | 128,852                    | 72,403                      | 201,255               |
| Other liabilities.....                               | 503,837                    | 816,124                     | 1,319,961             |
| Compensated absences.....                            | 796,684                    | 87,568                      | 884,252               |
| Notes payable.....                                   | 1,055,000                  | 4,041,791                   | 5,096,791             |
| Bonds payable.....                                   | 3,048,000                  | 1,222,937                   | 4,270,937             |
| <b>NONCURRENT:</b>                                   |                            |                             |                       |
| Customer deposits payable.....                       | -                          | 105,935                     | 105,935               |
| Compensated absences.....                            | 175,741                    | 181,396                     | 357,137               |
| Other postemployment benefits.....                   | 9,416,772                  | 329,649                     | 9,746,421             |
| Bonds payable.....                                   | 19,190,500                 | 13,839,243                  | 33,029,743            |
| <b>TOTAL LIABILITIES.....</b>                        | <b>35,175,460</b>          | <b>22,584,978</b>           | <b>57,760,438</b>     |
| <b>NET POSITION</b>                                  |                            |                             |                       |
| Net investment in capital assets.....                | 46,040,493                 | 23,057,646                  | 69,098,139            |
| Restricted for:                                      |                            |                             |                       |
| Rate stabilization.....                              | -                          | 1,333,357                   | 1,333,357             |
| Depreciation.....                                    | -                          | 102,345                     | 102,345               |
| Affordable Housing.....                              | 202,260                    | -                           | 202,260               |
| Loans.....   | 157,825                    | -                           | 157,825               |
| Permanent funds:                                     |                            |                             |                       |
| Expendable.....                                      | 6,163,478                  | -                           | 6,163,478             |
| Nonexpendable.....                                   | 22,556,778                 | -                           | 22,556,778            |
| Gifts and grants.....                                | 867,695                    | -                           | 867,695               |
| Unrestricted.....                                    | (143,838)                  | 3,084,705                   | 2,940,867             |
| <b>TOTAL NET POSITION.....</b>                       | <b>\$ 75,844,691</b>       | <b>\$ 27,578,053</b>        | <b>\$ 103,422,744</b> |

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2014

| Functions/Programs                         | Expenses             | Program Revenues        |  |  | Net (Expense)<br>Revenue |
|--|----------------------|-------------------------|--|--|--------------------------|
|  |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                          |
| <b>Primary Government:</b>                 |                      |                         |  |  |                          |
| <i>Governmental Activities:</i>            |                      |                         |  |  |                          |
| General government.....                    | \$ 1,053,965         | \$ 577,205              | \$ 90,413                                | \$ -                                   | \$ (386,347)             |
| Finance.....                               | 1,366,384            | 97                      | -  | -                                      | (1,366,287)              |
| Public safety.....                         | 6,493,964            | 474,305                 | 15,286                                   | -                                      | (6,004,373)              |
| Education.....                             | 33,737,406           | 1,383,010               | 8,557,634                                | -                                      | (23,796,762)             |
| Public works.....                          | 4,836,072            | 187,875                 | 21,869                                   | 886,328                                | (3,740,000)              |
| Code enforcement.....                      | 720,535              | 459,950                 | -  | -                                      | (260,585)                |
| Planning and development.....              | 442,816              | 58,855                  | 35,891                                   | -                                      | (348,070)                |
| Human services.....                        | 733,712              | 70,958                  | 220,948                                  | -                                      | (441,806)                |
| Library.....                               | 854,632              | 6,183                   | 13,370                                   | -                                      | (835,079)                |
| Feoffee's trust.....                       | 135,764              | 226,838                 | 3,531,758                                | 15,000                                 | 3,637,832                |
| Interest.....                              | 970,637              | -                       | 531,424                                  | -                                      | (439,213)                |
| <b>Total Governmental Activities.....</b>  | <b>51,345,887</b>    | <b>3,445,276</b>        | <b>13,018,593</b>                        | <b>901,328</b>                         | <b>(33,980,690)</b>      |
| <i>Business-Type Activities:</i>           |                      |                         |  |  |                          |
| Water.....                                 | 2,657,116            | 2,708,871               | 36,917                                   | -                                      | 88,672                   |
| Sewer.....                                 | 1,774,251            | 1,705,794               | 72,575                                   | -                                      | 4,118                    |
| Municipal Light.....                       | 15,999,464           | 16,082,663              | 8,306                                    | -                                      | 91,505                   |
| <b>Total Business-Type Activities.....</b> | <b>20,430,831</b>    | <b>20,497,328</b>       | <b>117,798</b>                           | <b>-</b>                               | <b>184,295</b>           |
| <b>Total Primary Government.....</b>       | <b>\$ 71,776,718</b> | <b>\$ 23,942,604</b>    | <b>\$ 13,136,391</b>                     | <b>\$ 901,328</b>                      | <b>\$ (33,796,395)</b>   |

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

YEAR ENDED JUNE 30, 2014

|   | Primary Government          |                             |                              |
|---|-----------------------------|-----------------------------|------------------------------|
|   | Governmental<br>Activities  | Business-Type<br>Activities | Total                        |
| <b>Changes in net position:</b>   |                             |                             |                              |
| Net (expense) revenue from previous page.....                               | \$ <b>(33,980,690)</b>      | \$ <b>184,295</b>           | \$ <b>(33,796,395)</b>       |
| <i>General revenues:</i>  |                             |                             |                              |
| Real estate and personal property taxes,<br>net of tax refunds payable..... | 31,966,818                  | -                           | 31,966,818                   |
| Motor vehicle and other excise taxes.....                                   | 1,853,332                   | -                           | 1,853,332                    |
| Hotel/motel tax.....  | 39,861                      | -                           | 39,861                       |
| Meals tax.....  | 199,132                     | -                           | 199,132                      |
| Penalties and interest on taxes.....  | 207,076                     | -                           | 207,076                      |
| Payments in lieu of taxes.....  | 468,330                     | -                           | 468,330                      |
| Grants and contributions not restricted to<br>specific programs.....        | 1,925,970                   | -                           | 1,925,970                    |
| Unrestricted investment income.....   | 265,948                     | -                           | 265,948                      |
| Gain/(loss) on sale of capital assets.....                                  | 8,706                       | -                           | 8,706                        |
| Miscellaneous.....  | 80,454                      | -                           | 80,454                       |
| <i>Transfers, net</i> .....   | <u>(69,178)</u>             | <u>69,178</u>               | <u>-</u>                     |
| Total general revenues.....   | <u>36,946,449</u>           | <u>69,178</u>               | <u>37,015,627</u>            |
| Change in net position.....   | 2,965,759                   | 253,473                     | 3,219,232                    |
| <i>Net Position:</i>  |                             |                             |                              |
| Beginning of year.....  | <u>72,878,932</u>           | <u>27,324,580</u>           | <u>100,203,512</u>           |
| End of year.....  | \$ <u><u>75,844,691</u></u> | \$ <u><u>27,578,053</u></u> | \$ <u><u>103,422,744</u></u> |

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2014

|   | General                     | Feoffee's<br>Trust          | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-----------------------------|-----------------------------|-----------------------------------|--------------------------------|
| <b>ASSETS</b>   |                             |                             |                                   |                                |
| Cash and cash equivalents.....  | \$ 5,542,261                | \$ 2,071,748                | \$ 3,305,344                      | \$ 10,919,353                  |
| Investments.....  | -                           | 21,759,727                  | 2,566,478                         | 24,326,205                     |
| Receivables, net of uncollectibles:   |                             |                             |                                   |                                |
| Real estate and personal property taxes.....  | 420,630                     | -                           | -                                 | 420,630                        |
| Tax liens.....  | 553,097                     | -                           | -                                 | 553,097                        |
| Motor vehicle and other excise taxes.....   | 117,600                     | -                           | -                                 | 117,600                        |
| Departmental and other.....   | 50,101                      | 84,174                      | 69,545                            | 203,820                        |
| Intergovernmental.....  | 5,150,256                   | -                           | 1,946,047                         | 7,096,303                      |
| Mortgage notes.....   | -                           | 2,776,202                   | -                                 | 2,776,202                      |
| Use and occupancy loans.....  | -                           | 235,360                     | -                                 | 235,360                        |
| Loans.....  | -                           | -                           | 157,825                           | 157,825                        |
| Tax foreclosures.....   | 30,019                      | -                           | -                                 | 30,019                         |
| <b>TOTAL ASSETS.....</b>  | <b><u>\$ 11,863,964</u></b> | <b><u>\$ 26,927,211</u></b> | <b><u>\$ 8,045,239</u></b>        | <b><u>\$ 46,836,414</u></b>    |
| <b>LIABILITIES</b>  |                             |                             |                                   |                                |
| Warrants payable.....   | \$ 384,338                  | \$ 469                      | \$ 291,339                        | \$ 676,146                     |
| Accrued payroll.....  | 151,020                     | -                           | 32,908                            | 183,928                        |
| Other liabilities.....  | 503,537                     | -                           | 300                               | 503,837                        |
| Notes payable.....  | -                           | -                           | 1,055,000                         | 1,055,000                      |
| <b>TOTAL LIABILITIES.....</b>   | <b><u>1,038,895</u></b>     | <b><u>469</u></b>           | <b><u>1,379,547</u></b>           | <b><u>2,418,911</u></b>        |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                             |                             |                                   |                                |
| Unavailable revenues.....   | 6,221,225                   | -                           | 1,149,413                         | 7,370,638                      |
| <b>FUND BALANCES</b>  |                             |                             |                                   |                                |
| Nonspendable.....   | -                           | 21,810,016                  | 746,762                           | 22,556,778                     |
| Restricted.....   | -                           | 5,116,726                   | 5,006,112                         | 10,122,838                     |
| Committed.....  | 50,000                      | -                           | -                                 | 50,000                         |
| Assigned.....   | 655,813                     | -                           | -                                 | 655,813                        |
| Unassigned.....   | 3,898,031                   | -                           | (236,595)                         | 3,661,436                      |
| <b>TOTAL FUND BALANCES.....</b>   | <b><u>4,603,844</u></b>     | <b><u>26,926,742</u></b>    | <b><u>5,516,279</u></b>           | <b><u>37,046,865</u></b>       |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCES.....</b> | <b><u>\$ 11,863,964</u></b> | <b><u>\$ 26,927,211</u></b> | <b><u>\$ 8,045,239</u></b>        | <b><u>\$ 46,836,414</u></b>    |

See notes to basic financial statements.

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

JUNE 30, 2014

|   |                    |                     |
|---|--------------------|---------------------|
| Total governmental fund balances.....   | \$                 | 37,046,865          |
| Capital assets (net) used in governmental activities are not financial resources<br>and, therefore, are not reported in the funds.....                      |                    | 64,183,737          |
| Accounts receivable are not available to pay for current-period<br>expenditures and, therefore, are unavailable in the funds.....                           |                    | 7,370,638           |
| In the statement of activities, interest is accrued on outstanding long-term debt,<br>whereas in governmental funds interest is not reported until due..... |                    | (128,852)           |
| Long-term liabilities are not due and payable in the current period and, therefore,<br>are not reported in the governmental funds                           |                    |                     |
| Bonds and notes payable.....  | (22,238,500)       |                     |
| Compensated absences.....   | (972,425)          |                     |
| Other postemployment benefits.....  | <u>(9,416,772)</u> |                     |
| Net effect of reporting long-term liabilities.....  |                    | <u>(32,627,697)</u> |
| Net position of governmental activities.....  | \$                 | <u>75,844,691</u>   |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

|   | General             | Feoffee's<br>Trust   | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|----------------------|-----------------------------------|--------------------------------|
| <b>REVENUES:</b>  |                     |                      |                                   |                                |
| Real estate and personal property taxes,<br>net of tax refunds.....       | \$ 31,724,928       | \$ -                 | \$ -                              | \$ 31,724,928                  |
| Tax liens.....  | 238,799             | -                    | -                                 | 238,799                        |
| Motor vehicle and other excise taxes.....                                 | 1,958,721           | -                    | 19,478                            | 1,978,199                      |
| Charges for services.....   | 31,352              | -                    | 1,870,071                         | 1,901,423                      |
| Hotel/motel tax.....  | -                   | -                    | 39,861                            | 39,861                         |
| Meals tax.....  | 199,132             | -                    | -                                 | 199,132                        |
| Penalties and interest on taxes.....                                      | 207,076             | -                    | -                                 | 207,076                        |
| Payments in lieu of taxes.....  | 468,330             | -                    | -                                 | 468,330                        |
| Licenses and permits.....   | 672,073             | -                    | 77,898                            | 749,971                        |
| Fines and forfeitures.....  | 44,888              | -                    | -                                 | 44,888                         |
| Intergovernmental.....  | 10,015,006          | -                    | 2,171,581                         | 12,186,587                     |
| Departmental and other.....   | 370,802             | -                    | 91,888                            | 462,690                        |
| Contributions.....  | -                   | -                    | 178,679                           | 178,679                        |
| Investment income.....  | 97,075              | 3,493,649            | 168,873                           | 3,759,597                      |
| Interest on mortgage and loans.....                                       | -                   | 226,838              | -                                 | 226,838                        |
| Court ordered sale of Little Neck property.....                           | -                   | 15,000               | -                                 | 15,000                         |
| Other.....  | -                   | 41,386               | 155,301                           | 196,687                        |
| <b>TOTAL REVENUES.....</b>  | <b>46,028,182</b>   | <b>3,776,873</b>     | <b>4,773,630</b>                  | <b>54,578,685</b>              |
| <b>EXPENDITURES:</b>  |                     |                      |                                   |                                |
| Current:  |                     |                      |                                   |                                |
| General government.....   | 407,205             | -                    | 320,877                           | 728,082                        |
| Finance.....  | 1,025,327           | -                    | 46,977                            | 1,072,304                      |
| Public safety.....  | 4,441,550           | -                    | 529,219                           | 4,970,769                      |
| Education.....  | 22,379,020          | 3,277                | 5,303,360                         | 27,685,657                     |
| Public works.....   | 3,771,106           | -                    | 653,547                           | 4,424,653                      |
| Code enforcement.....   | 426,048             | -                    | 27,240                            | 453,288                        |
| Planning and development.....   | 245,596             | -                    | 98,382                            | 343,978                        |
| Human services.....   | 468,147             | -                    | 134,131                           | 602,278                        |
| Library.....  | 592,567             | -                    | 33,965                            | 626,532                        |
| Pension benefits.....   | 3,549,000           | -                    | -                                 | 3,549,000                      |
| Property and liability insurance.....                                     | 209,017             | -                    | -                                 | 209,017                        |
| Employee benefits.....  | 2,701,549           | -                    | -                                 | 2,701,549                      |
| Feoffee's trust.....  | -                   | 135,764              | -                                 | 135,764                        |
| Other.....  | 102,006             | -                    | -                                 | 102,006                        |
| State and county charges.....   | 742,490             | -                    | -                                 | 742,490                        |
| Debt service:   |                     |                      |                                   |                                |
| Principal.....  | 3,028,000           | -                    | -                                 | 3,028,000                      |
| Interest.....   | 988,466             | -                    | -                                 | 988,466                        |
| <b>TOTAL EXPENDITURES.....</b>  | <b>45,077,094</b>   | <b>139,041</b>       | <b>7,147,698</b>                  | <b>52,363,833</b>              |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES.....</b> | <b>951,088</b>      | <b>3,637,832</b>     | <b>(2,374,068)</b>                | <b>2,214,852</b>               |
| <b>OTHER FINANCING SOURCES (USES):</b>                                    |                     |                      |                                   |                                |
| Sale of capital assets.....   | 13,400              | -                    | -                                 | 13,400                         |
| Transfers in.....   | 73,466              | -                    | 1,428,093                         | 1,501,559                      |
| Transfers out.....  | (622,071)           | (806,022)            | (142,644)                         | (1,570,737)                    |
| <b>TOTAL OTHER FINANCING SOURCES (USES).....</b>                          | <b>(535,205)</b>    | <b>(806,022)</b>     | <b>1,285,449</b>                  | <b>(55,778)</b>                |
| <b>NET CHANGE IN FUND BALANCES.....</b>                                   | <b>415,883</b>      | <b>2,831,810</b>     | <b>(1,088,619)</b>                | <b>2,159,074</b>               |
| <b>FUND BALANCES AT BEGINNING OF YEAR.....</b>                            | <b>4,187,961</b>    | <b>24,094,932</b>    | <b>6,604,898</b>                  | <b>34,887,791</b>              |
| <b>FUND BALANCES AT END OF YEAR.....</b>                                  | <b>\$ 4,603,844</b> | <b>\$ 26,926,742</b> | <b>\$ 5,516,279</b>               | <b>\$ 37,046,865</b>           |

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**

YEAR ENDED JUNE 30, 2014

|  |                    |                         |
|--|--------------------|-------------------------|
| Net change in fund balances - total governmental funds.....  | \$                 | 2,159,074               |
| <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.....  | 1,902,427          |                         |
| Depreciation expense.....  | <u>(2,100,478)</u> |                         |
| Net effect of reporting capital assets.....  |                    | (198,051)               |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are fully unavailable 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 unavailable revenue.....</p>  |                    |                         |
|  |                    | (251,607)               |
| <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> |                    |                         |
| Debt service principal payments.....   | <u>3,028,000</u>   |                         |
| Net effect of reporting long-term debt.....  |                    | 3,028,000               |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>   |                    |                         |
| Net change in compensated absences accrual.....  | 386,277            |                         |
| Net change in other postemployment benefit liability.....  | (2,175,763)        |                         |
| Net change in accrued interest on long-term debt.....  | <u>17,829</u>      |                         |
| Net effect of recording long-term liabilities.....   |                    | <u>(1,771,657)</u>      |
| Change in net position of governmental activities.....   | \$                 | <u><u>2,965,759</u></u> |

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**

JUNE 30, 2014

|  | Business-type Activities - Enterprise Funds |                     |                      |                      |
|--|---|---------------------|----------------------|----------------------|
|  | Water                                       | Sewer               | Municipal<br>Light   | Total                |
| <b>ASSETS</b>  |   |                     |                      |                      |
| <b>CURRENT:</b>                                      |   |                     |                      |                      |
| Cash and cash equivalents.....                       | \$ 1,022,103                                | \$ 1,073,601        | \$ 37,858            | \$ 2,133,562         |
| Restricted cash and cash equivalents.....            | -   | -                   | 383,998              | 383,998              |
| Receivables, net of allowance for uncollectibles:    |   |                     |                      |                      |
| User fees.....                                       | 607,164                                     | 238,078             | 1,991,719            | 2,836,961            |
| Intergovernmental.....                               | -   | 27,810              | -                    | 27,810               |
| Special assessments.....                             | -   | 5,943               | -                    | 5,943                |
| Purchased power working capital and prepayments..... | -   | -                   | 1,737,667            | 1,737,667            |
| Inventory.....                                       | -   | -                   | 152,044              | 152,044              |
| <b>Total current assets.....</b>                     | <b>1,629,267</b>                            | <b>1,345,432</b>    | <b>4,303,286</b>     | <b>7,277,985</b>     |
| <b>NONCURRENT:</b>                                   |   |                     |                      |                      |
| Restricted cash and cash equivalents.....            | -   | -                   | 1,280,792            | 1,280,792            |
| Receivables, net of allowance for uncollectibles:    |   |                     |                      |                      |
| Intergovernmental.....                               | -   | 119,817             | -                    | 119,817              |
| Special assessments.....                             | -   | 19,138              | -                    | 19,138               |
| Capital assets, net of accumulated depreciation..... |   |                     |                      |                      |
| Nondepreciable.....                                  | 1,518,341                                   | 871,907             | 22,976               | 2,413,224            |
| Depreciable.....                                     | 12,685,183                                  | 11,957,698          | 14,409,194           | 39,052,075           |
| <b>Total noncurrent assets.....</b>                  | <b>14,203,524</b>                           | <b>12,968,560</b>   | <b>15,712,962</b>    | <b>42,885,046</b>    |
| <b>TOTAL ASSETS.....</b>                             | <b>15,832,791</b>                           | <b>14,313,992</b>   | <b>20,016,248</b>    | <b>50,163,031</b>    |
| <b>LIABILITIES</b>                                   |   |                     |                      |                      |
| <b>CURRENT:</b>                                      |   |                     |                      |                      |
| Warrants payable.....                                | 12,880                                      | 209,493             | 1,604,871            | 1,827,244            |
| Accrued payroll.....                                 | 18,762                                      | 9,388               | 32,538               | 60,688               |
| Accrued interest.....                                | 20,657                                      | 26,306              | 25,440               | 72,403               |
| Customer deposits payable.....                       | -   | -                   | 105,935              | 105,935              |
| Other liabilities.....                               | -   | -                   | 816,124              | 816,124              |
| Compensated absences.....                            | 53,572                                      | 17,057              | 16,939               | 87,568               |
| Notes payable.....                                   | 260,000                                     | 3,781,791           | -                    | 4,041,791            |
| Bonds payable.....                                   | 374,338                                     | 368,599             | 480,000              | 1,222,937            |
| <b>Total current liabilities.....</b>                | <b>740,209</b>                              | <b>4,412,634</b>    | <b>3,081,847</b>     | <b>8,234,690</b>     |
| <b>NONCURRENT:</b>                                   |   |                     |                      |                      |
| Compensated absences.....                            | 26,695                                      | 2,255               | 152,446              | 181,396              |
| Other postemployment benefits.....                   | 177,073                                     | 85,004              | 67,572               | 329,649              |
| Bonds payable.....                                   | 3,667,690                                   | 3,801,553           | 6,370,000            | 13,839,243           |
| <b>Total noncurrent liabilities.....</b>             | <b>3,871,458</b>                            | <b>3,888,812</b>    | <b>6,590,018</b>     | <b>14,350,288</b>    |
| <b>TOTAL LIABILITIES.....</b>                        | <b>4,611,667</b>                            | <b>8,301,446</b>    | <b>9,671,865</b>     | <b>22,584,978</b>    |
| <b>NET POSITION</b>                                  |   |                     |                      |                      |
| Net investment in capital assets.....                | 10,245,121                                  | 5,230,355           | 7,582,170            | 23,057,646           |
| Restricted for:                                      |   |                     |                      |                      |
| Rate stabilization.....                              | -   | -                   | 1,333,357            | 1,333,357            |
| Depreciation.....                                    | -   | -                   | 102,345              | 102,345              |
| Unrestricted.....                                    | 976,003                                     | 782,191             | 1,326,511            | 3,084,705            |
| <b>TOTAL NET POSITION.....</b>                       | <b>\$ 11,221,124</b>                        | <b>\$ 6,012,546</b> | <b>\$ 10,344,383</b> | <b>\$ 27,578,053</b> |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

|   | Business-type Activities - Enterprise Funds |                     |                      |                      |
|---|---|---------------------|----------------------|----------------------|
|   | Water                                       | Sewer               | Municipal<br>Light   | Total                |
| <b>OPERATING REVENUES:</b>                                  |   |                     |                      |                      |
| Charges for services.....                                   | \$ 2,708,871                                | \$ 1,704,029        | \$ 15,707,150        | \$ 20,120,050        |
| Other.....  | -   | 1,765               | 375,513              | 377,278              |
| <b>TOTAL OPERATING REVENUES.....</b>                        | <b>2,708,871</b>                            | <b>1,705,794</b>    | <b>16,082,663</b>    | <b>20,497,328</b>    |
| <b>OPERATING EXPENSES:</b>                                  |   |                     |                      |                      |
| Cost of services and administration.....                    | 1,976,899                                   | 1,118,963           | 14,806,424           | 17,902,286           |
| Depreciation.....   | 543,955                                     | 503,803             | 912,489              | 1,960,247            |
| <b>TOTAL OPERATING EXPENSES .....</b>                       | <b>2,520,854</b>                            | <b>1,622,766</b>    | <b>15,718,913</b>    | <b>19,862,533</b>    |
| <b>OPERATING INCOME (LOSS).....</b>                         | <b>188,017</b>                              | <b>83,028</b>       | <b>363,750</b>       | <b>634,795</b>       |
| <b>NONOPERATING REVENUES (EXPENSES):</b>                    |   |                     |                      |                      |
| Investment income.....                                      | 36,917                                      | 24,997              | 8,306                | 70,220               |
| Interest expense.....                                       | (136,262)                                   | (151,485)           | (280,551)            | (568,298)            |
| Intergovernmental.....                                      | -   | 47,578              | -                    | 47,578               |
| <b>TOTAL NONOPERATING<br/>REVENUES (EXPENSES), NET.....</b> | <b>(99,345)</b>                             | <b>(78,910)</b>     | <b>(272,245)</b>     | <b>(450,500)</b>     |
| <b>INCOME (LOSS) BEFORE TRANSFERS.....</b>                  | <b>88,672</b>                               | <b>4,118</b>        | <b>91,505</b>        | <b>184,295</b>       |
| <b>TRANSFERS:</b>   |   |                     |                      |                      |
| Transfers in.....   | 69,178                                      | -                   | -                    | 69,178               |
| <b>CHANGE IN NET POSITION.....</b>                          | <b>157,850</b>                              | <b>4,118</b>        | <b>91,505</b>        | <b>253,473</b>       |
| <b>NET POSITION AT BEGINNING OF YEAR.....</b>               | <b>11,063,274</b>                           | <b>6,008,428</b>    | <b>10,252,878</b>    | <b>27,324,580</b>    |
| <b>NET POSITION AT END OF YEAR.....</b>                     | <b>\$ 11,221,124</b>                        | <b>\$ 6,012,546</b> | <b>\$ 10,344,383</b> | <b>\$ 27,578,053</b> |

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2014

|  | Business-type Activities - Enterprise Funds |                     |                     |                     |
|--|---|---------------------|---------------------|---------------------|
|  | Water                                       | Sewer               | Municipal<br>Light  | Total               |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>  |   |                     |                     |                     |
| Receipts from customers and users.....   | \$ 2,641,779                                | \$ 1,655,593        | \$ 16,237,485       | \$ 20,534,857       |
| Payments to vendors.....   | (1,116,118)                                 | (769,706)           | (13,413,255)        | (15,299,079)        |
| Payments to employees.....   | (880,173)                                   | (479,075)           | (1,432,495)         | (2,791,743)         |
| <b>NET CASH FROM OPERATING ACTIVITIES.....</b>   | <b>645,488</b>                              | <b>406,812</b>      | <b>1,391,735</b>    | <b>2,444,035</b>    |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>                        |   |                     |                     |                     |
| Proceeds from the issuance of bonds and notes.....   | 260,000                                     | 3,781,791           | -                   | 4,041,791           |
| Intergovernmental grants.....  | 95,210                                      | 76,071              | -                   | 171,281             |
| Acquisition and construction of capital assets.....  | (410,609)                                   | (3,145,527)         | (684,496)           | (4,240,632)         |
| Principal payments on bonds and notes.....   | (408,331)                                   | (363,782)           | (480,000)           | (1,252,113)         |
| Interest expense.....  | (138,801)                                   | (154,186)           | (281,976)           | (574,963)           |
| <b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>                             | <b>(602,531)</b>                            | <b>194,367</b>      | <b>(1,446,472)</b>  | <b>(1,854,636)</b>  |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>  |   |                     |                     |                     |
| Investment income.....   | 36,917                                      | 24,997              | 8,306               | 70,220              |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>  | <b>149,052</b>                              | <b>626,176</b>      | <b>(46,431)</b>     | <b>728,797</b>      |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>                                     | <b>873,051</b>                              | <b>447,425</b>      | <b>1,749,079</b>    | <b>3,069,555</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>   | <b>\$ 1,022,103</b>                         | <b>\$ 1,073,601</b> | <b>\$ 1,702,648</b> | <b>\$ 3,798,352</b> |
| <b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b> |   |                     |                     |                     |
| Operating income (loss).....   | \$ 188,017                                  | \$ 83,028           | \$ 363,750          | \$ 634,795          |
| Adjustments to reconcile operating income (loss) to net cash from operating activities:        |   |                     |                     |                     |
| Depreciation.....  | 543,955                                     | 503,803             | 912,489             | 1,960,247           |
| Changes in assets and liabilities:   |   |                     |                     |                     |
| User fees.....   | (67,092)                                    | (56,144)            | 15,944              | (107,292)           |
| Special assessments.....   | -   | 5,943               | -                   | 5,943               |
| Purchased power working capital and prepayments.....   | -   | -                   | 19,775              | 19,775              |
| Inventory.....   | -   | -                   | 5,584               | 5,584               |
| Warrants payable.....  | (37,808)                                    | (124,463)           | (144,392)           | (306,663)           |
| Accrued payroll.....   | 1,946                                       | 150                 | 7,307               | 9,403               |
| Customer deposits payable and other liabilities.....   | -   | -                   | 138,878             | 138,878             |
| Accrued compensated absences.....  | (15,533)                                    | (13,577)            | 44,649              | 15,539              |
| Other postemployment benefits.....   | 32,003                                      | 8,072               | 27,751              | 67,826              |
| <b>Total adjustments.....</b>  | <b>457,471</b>                              | <b>323,784</b>      | <b>1,027,985</b>    | <b>1,809,240</b>    |
| <b>NET CASH FROM OPERATING ACTIVITIES.....</b>   | <b>\$ 645,488</b>                           | <b>\$ 406,812</b>   | <b>\$ 1,391,735</b> | <b>\$ 2,444,035</b> |
| <b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>                            |   |                     |                     |                     |
| Intergovernmental subsidy of debt service.....   | \$ -  | \$ 47,578           | \$ -                | \$ 47,578           |

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

|  | Other<br>Postemployment<br>Benefit Fund | Private<br>Purpose<br>Trust Funds | Agency<br>Funds |
|--|---|-----------------------------------|-----------------|
| <b>ASSETS</b>  |   |                                   |                 |
| <b>CURRENT:</b>  |   |                                   |                 |
| Cash and cash equivalents.....                             | \$ -                                    | \$ 290,478                        | \$ 341,784      |
| Investments.....   | <u>1,985,099</u>                        | <u>-</u>                          | <u>-</u>        |
| <b>TOTAL ASSETS.....</b>                                   | <u>1,985,099</u>                        | <u>290,478</u>                    | <u>341,784</u>  |
| <b>LIABILITIES</b>   |   |                                   |                 |
| Warrants payable.....                                      | -                                       | -                                 | 2,174           |
| Liabilities due depositors.....                            | <u>-</u>                                | <u>-</u>                          | <u>339,610</u>  |
| <b>TOTAL LIABILITIES.....</b>                              | <u>-</u>                                | <u>-</u>                          | <u>341,784</u>  |
| <b>NET POSITION</b>  |   |                                   |                 |
| Held in trust for OPEB benefits and<br>other purposes..... | <u>\$ 1,985,099</u>                     | <u>\$ 290,478</u>                 | <u>\$ -</u>     |

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2014

|   | Other<br>Postemployment<br>Benefit Fund | Private<br>Purpose<br>Trust Funds |
|---|---|-----------------------------------|
| <u>ADDITIONS:</u>                             |   |                                   |
| Contributions:                                |   |                                   |
| Employer contributions.....                   | \$ 365,401                              | \$ -                              |
| Net investment income (loss):                 |   |                                   |
| Investment income.....                        | 226,421                                 | 32,197                            |
| <b>TOTAL ADDITIONS.....</b>                   | <b>591,822</b>                          | <b>32,197</b>                     |
| <u>DEDUCTIONS:</u>                            |   |                                   |
| Educational scholarships.....                 | -                                       | 8,449                             |
| Historical preservation.....                  | -                                       | 2,934                             |
| <b>TOTAL DEDUCTIONS.....</b>                  | <b>-</b>                                | <b>11,383</b>                     |
| <b>CHANGE IN NET POSITION.....</b>            | <b>591,822</b>                          | <b>20,814</b>                     |
| <b>NET POSITION AT BEGINNING OF YEAR.....</b> | <b>1,393,277</b>                        | <b>269,664</b>                    |
| <b>NET POSITION AT END OF YEAR.....</b>       | <b>\$ 1,985,099</b>                     | <b>\$ 290,478</b>                 |

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 and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets and deferred outflows, liabilities and deferred inflows, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows, liabilities and deferred inflows, 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 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 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 1<sup>st</sup> 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 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> 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 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 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 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 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 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 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 Feoffee's 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.

*Governmental Fund Financial Statements*

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will not be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

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 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. Unavailable Revenue

Unavailable 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 unavailable 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 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 \$70,000. The Town expects this deficit to be funded with future receipts.

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 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.

The Healthcare Security Trust Board of Trustees is the custodian of funds held in the Other Postemployment Benefit (OPEB) Trust Fund. As of June 30, 2014, \$1,985,099 from the OPEB Trust Fund is included within the Town’s cash and investment balances in the following disclosures.

The OPEB Trust Fund is invested in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Ipswich’s deposits may not be returned to it. The Town does 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 year-end, the carrying amount of deposits totaled \$14,397,216 and the bank balance totaled \$15,060,603. Of the bank balance, \$2,046,982 was covered by Federal Depository Insurance, \$10,133,504 was covered by the Depositors Insurance Fund, and \$2,880,117 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Investments**

As of June 30, 2014, the Town had the following investments:

| Investment Type                              | Fair Value   | Maturity         |            |            |
|--|--------------|------------------|------------|------------|
|  |              | Less than 1 Year | 1-5 Years  | 6-10 Years |
| <b>Debt Securities:</b>                      |              |                  |            |            |
| U.S. Treasury Notes.....                     | \$ 113,218   | \$ -             | \$ 113,218 | \$ -       |
| Government Sponsored Enterprises.....        | 611,905      | -                | 611,905    | -          |
| Corporate Bonds.....                         | 339,866      | 56,661           | 241,932    | 41,273     |
| Total Debt Securities.....                   | 1,064,989    | \$ 56,661        | \$ 967,055 | \$ 41,273  |
| <b>Other Investments:</b>                    |              |                  |            |            |
| Pension Reserve Investment Trust (PRIT)..... | 1,985,099    |                  |            |            |
| Equity Securities.....                       | 603,339      |                  |            |            |
| Money Market Mutual Funds.....               | 54,345       |                  |            |            |
| Mutual Funds.....                            | 898,150      |                  |            |            |
| MMDT.....                                    | 413,914      |                  |            |            |
| Total Investments.....                       | \$ 5,019,836 |                  |            |            |

MMDT maintains a cash and a short-term bond portfolio with combined average maturities of approximately 3 months.

The effective weighted duration rate for PRIT investments ranged from .25 to 10.78 years.

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, \$113,218 in U.S. Treasury Notes, \$611,905 in Government Sponsored Enterprises, and \$339,866 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, 2014, 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.....               | \$ 113,218                 | \$ 5,997                                | \$ 33,357              |
| AA+.....               | -                          | 605,908                                 | 61,972                 |
| A+.....                | -                          | -                                       | 67,269                 |
| A.....                 | -                          | -                                       | 25,722                 |
| A-.....                | -                          | -                                       | 104,227                |
| BBB+.....              | -                          | -                                       | 16,380                 |
| Fair Value.....        | <u>\$ 113,218</u>          | <u>\$ 611,905</u>                       | <u>\$ 308,927</u>      |

The Town’s investments in MMDT and PRIT are 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, 2014, 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<br/>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, 2014 are as follows:

|                                | <u>Market Value</u>  | <u>Maturity</u>             |                   |                   |
|--------------------------------|----------------------|-----------------------------|-------------------|-------------------|
|                                |                      | <u>Less Than<br/>1 Year</u> | <u>1-5 Years</u>  | <u>6-10 Years</u> |
| <b>Investment Type:</b>        |                      |                             |                   |                   |
| <u>Debt Securities:</u>        |                      |                             |                   |                   |
| U.S. Treasury Notes.....       | \$ 129,470           | \$ 40,019                   | \$ 50,864         | \$ 38,587         |
| Corporate Bonds.....           | 485,497              | 80,659                      | 331,617           | 73,221            |
| Municipal Bonds.....           | 362,891              | 30,044                      | 332,847           | -                 |
| Total Debt Securities.....     | 977,858              | \$ <u>150,722</u>           | \$ <u>715,328</u> | \$ <u>111,808</u> |
| <u>Other Investments:</u>      |                      |                             |                   |                   |
| Equity Securities.....         | 8,526,127            |                             |                   |                   |
| Money Market Mutual Funds..... | 484,492              |                             |                   |                   |
| Limited Partnerships.....      | <u>12,255,742</u>    |                             |                   |                   |
| Total Investments.....         | \$ <u>22,244,219</u> |                             |                   |                   |

The Trust has entered into two Limited Partnerships with Aureus II and High Vista Strategies to manage approximately 51% 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 has been engaged to implement specific terms of the Trust’s Investment Policy Statement. The Aureus II Limited Partnership comprises approximately 48% 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 52% 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.

With the assistance of qualified investment managers, portfolio or endowment advisors, or other professionals, and the approval of the School Committee, the Feoffees have established a written distribution policy that defines how the annual distributions from the trust are to be calculated and made. Earnings on investments are to be calculated and distributed according the distribution policy to the School Committee annually, no later than the day before the start of the year that ends on June 30, 2016 and the day before the start of each subsequent year. The amount of these anticipated distributions must be reported to the School Committee by October 1<sup>st</sup> of each year.

**NOTE 3 – RECEIVABLES**

At June 30, 2014, 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<br>Amount      | Allowance<br>for<br>Uncollectibles | Net<br>Amount        |
|---|----------------------|------------------------------------|----------------------|
| <u>Receivables:</u>                         |                      |                                    |                      |
| Real estate and personal property taxes.... | \$ 423,533           | \$ (2,903)                         | \$ 420,630           |
| Tax liens.....                              | 553,097              | -                                  | 553,097              |
| Motor vehicle and other excise taxes.....   | 138,410              | (20,810)                           | 117,600              |
| Departmental and other.....                 | 203,820              | -                                  | 203,820              |
| Intergovernmental.....                      | 7,096,303            | -                                  | 7,096,303            |
| Mortgage notes.....                         | 2,776,202            | -                                  | 2,776,202            |
| Use and occupancy loans.....                | 235,360              | -                                  | 235,360              |
| Loans.....                                  | 157,825              | -                                  | 157,825              |
| Total.....                                  | <u>\$ 11,584,550</u> | <u>\$ (23,713)</u>                 | <u>\$ 11,560,837</u> |

At June 30, 2014, receivables for the enterprise funds consist of the following:

|                          | Gross<br>Amount     | Allowance<br>for<br>Uncollectibles | Net<br>Amount       |
|--------------------------|---------------------|------------------------------------|---------------------|
| <u>Receivables:</u>      |                     |                                    |                     |
| User charges.....        | \$ 2,913,108        | \$ (76,147)                        | \$ 2,836,961        |
| Special assessments..... | 25,081              | -                                  | 25,081              |
| Intergovernmental.....   | 147,627             | -                                  | 147,627             |
| Total.....               | <u>\$ 3,085,816</u> | <u>\$ (76,147)</u>                 | <u>\$ 3,009,669</u> |

Governmental funds report *unavailable 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 year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

|   | General<br>Fund     | Other<br>Governmental<br>Funds | Total               |
|---|---------------------|--------------------------------|---------------------|
| <u>Receivable and other asset type:</u>     |                     |                                |                     |
| Real estate and personal property taxes.... | \$ 370,253          | \$ -                           | \$ 370,253          |
| Tax liens .....                             | 553,097             | -                              | 553,097             |
| Motor vehicle and other excise taxes.....   | 117,600             | -                              | 117,600             |
| Departmental and other.....                 | -                   | 69,545                         | 69,545              |
| Intergovernmental.....                      | 5,150,256           | 922,043                        | 6,072,299           |
| Loans.....                                  | -                   | 157,825                        | 157,825             |
| Tax foreclosures.....                       | 30,019              | -                              | 30,019              |
| Total.....                                  | <u>\$ 6,221,225</u> | <u>\$ 1,149,413</u>            | <u>\$ 7,370,638</u> |

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

|  | Beginning<br>Balance | Increases          | Decreases           | Ending<br>Balance    |
|--|----------------------|--------------------|---------------------|----------------------|
| <b>Governmental Activities:</b>                        |                      |                    |                     |                      |
| <u>Capital assets not being depreciated:</u>           |                      |                    |                     |                      |
| Land.....  | \$ 17,345,208        | \$ 45,040          | \$ (4,694)          | \$ 17,385,554        |
| Construction in progress.....                          | 831,871              | 738,298            | (813,107)           | 757,062              |
| Total capital assets not being depreciated.....        | <u>18,177,079</u>    | <u>783,338</u>     | <u>(817,801)</u>    | <u>18,142,616</u>    |
| <u>Capital assets being depreciated:</u>               |                      |                    |                     |                      |
| Buildings and improvements.....                        | 47,707,278           | 173,452            | -                   | 47,880,730           |
| Machinery, equipment and vehicles.....                 | 8,819,824            | 1,159,686          | (100,121)           | 9,879,389            |
| Infrastructure.....                                    | 11,425,044           | 603,752            | -                   | 12,028,796           |
| Total capital assets being depreciated.....            | <u>67,952,146</u>    | <u>1,936,890</u>   | <u>(100,121)</u>    | <u>69,788,915</u>    |
| <u>Less accumulated depreciation for:</u>              |                      |                    |                     |                      |
| Buildings and improvements.....                        | (14,395,202)         | (1,185,807)        | -                   | (15,581,009)         |
| Machinery, equipment and vehicles.....                 | (4,958,399)          | (673,429)          | 100,121             | (5,531,707)          |
| Infrastructure.....                                    | (2,393,836)          | (241,242)          | -                   | (2,635,078)          |
| Total accumulated depreciation.....                    | <u>(21,747,437)</u>  | <u>(2,100,478)</u> | <u>100,121</u>      | <u>(23,747,794)</u>  |
| Total capital assets being depreciated, net.....       | <u>46,204,709</u>    | <u>(163,588)</u>   | <u>-</u>            | <u>46,041,121</u>    |
| Total governmental activities capital assets, net..... | <u>\$ 64,381,788</u> | <u>\$ 619,750</u>  | <u>\$ (817,801)</u> | <u>\$ 64,183,737</u> |

| <b>Water Enterprise Fund:</b>                        | Beginning<br>Balance | Increases           | Decreases           | Ending<br>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.....      | <u>1,518,341</u>     | <u>-</u>            | <u>-</u>            | <u>1,518,341</u>     |
| <u>Capital assets being depreciated:</u>             |                      |                     |                     |                      |
| Buildings and improvements.....                      | 222,486              | -                   | -                   | 222,486              |
| Machinery, equipment and vehicles.....               | 589,948              | 23,844              | -                   | 613,792              |
| Infrastructure.....                                  | 23,100,704           | 386,765             | -                   | 23,487,469           |
| Total capital assets being depreciated.....          | <u>23,913,138</u>    | <u>410,609</u>      | <u>-</u>            | <u>24,323,747</u>    |
| <u>Less accumulated depreciation for:</u>            |                      |                     |                     |                      |
| Buildings and improvements.....                      | (164,641)            | (4,450)             | -                   | (169,091)            |
| Machinery, equipment and vehicles.....               | (417,531)            | (21,211)            | -                   | (438,742)            |
| Infrastructure.....                                  | (10,512,437)         | (518,294)           | -                   | (11,030,731)         |
| Total accumulated depreciation.....                  | <u>(11,094,609)</u>  | <u>(543,955)</u>    | <u>-</u>            | <u>(11,638,564)</u>  |
| Total capital assets being depreciated, net.....     | <u>12,818,529</u>    | <u>(133,346)</u>    | <u>-</u>            | <u>12,685,183</u>    |
| Total water enterprise fund capital assets, net..... | <u>\$ 14,336,870</u> | <u>\$ (133,346)</u> | <u>\$ -</u>         | <u>\$ 14,203,524</u> |
| <br>   |                      |                     |                     |                      |
| <b>Sewer Enterprise Fund:</b>                        |                      |                     |                     |                      |
|  | Beginning<br>Balance | Increases           | Decreases           | Ending<br>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.....      | <u>1,144,331</u>     | <u>-</u>            | <u>(272,424)</u>    | <u>871,907</u>       |
| <u>Capital assets being depreciated:</u>             |                      |                     |                     |                      |
| Buildings and improvements.....                      | 47,194               | -                   | -                   | 47,194               |
| Machinery, equipment and vehicles.....               | 355,148              | 101,794             | -                   | 456,942              |
| Infrastructure.....                                  | 16,770,545           | 3,316,157           | -                   | 20,086,702           |
| Total capital assets being depreciated.....          | <u>17,172,887</u>    | <u>3,417,951</u>    | <u>-</u>            | <u>20,590,838</u>    |
| <u>Less accumulated depreciation for:</u>            |                      |                     |                     |                      |
| Buildings and improvements.....                      | (34,928)             | (942)               | -                   | (35,870)             |
| Machinery, equipment and vehicles.....               | (175,261)            | (14,388)            | -                   | (189,649)            |
| Infrastructure.....                                  | (7,919,148)          | (488,473)           | -                   | (8,407,621)          |
| Total accumulated depreciation.....                  | <u>(8,129,337)</u>   | <u>(503,803)</u>    | <u>-</u>            | <u>(8,633,140)</u>   |
| Total capital assets being depreciated, net.....     | <u>9,043,550</u>     | <u>2,914,148</u>    | <u>-</u>            | <u>11,957,698</u>    |
| Total sewer enterprise fund capital assets, net..... | <u>\$ 10,187,881</u> | <u>\$ 2,914,148</u> | <u>\$ (272,424)</u> | <u>\$ 12,829,605</u> |

| <b>Municipal Light Enterprise Fund:</b>                        | Beginning<br>Balance | Increases           | Decreases        | Ending<br>Balance    |
|--|----------------------|---------------------|------------------|----------------------|
| <u>Capital assets not being depreciated:</u>                   |                      |                     |                  |                      |
| Land.....  | \$ 22,976            | \$ -                | \$ -             | \$ 22,976            |
| <u>Capital assets being depreciated:</u>                       |                      |                     |                  |                      |
| Production plant.....  | 7,390,388            | 35,062              | (23,210)         | 7,402,240            |
| Transmission plant.....  | 1,943,868            | -                   | -                | 1,943,868            |
| Distribution plant.....  | 18,205,931           | 627,859             | (713,081)        | 18,120,709           |
| General plant.....   | 2,541,592            | 21,575              | (45,626)         | 2,517,541            |
| Total capital assets being depreciated.....                    | <u>30,081,779</u>    | <u>684,496</u>      | <u>(781,917)</u> | <u>29,984,358</u>    |
| <u>Less accumulated depreciation for:</u>                      |                      |                     |                  |                      |
| Production plant.....  | (4,911,937)          | (157,631)           | 23,210           | (5,046,358)          |
| Transmission plant.....  | (545,544)            | (89,554)            | -                | (635,098)            |
| Distribution plant.....  | (8,346,303)          | (612,702)           | 713,081          | (8,245,924)          |
| General plant.....   | (1,640,808)          | (52,602)            | 45,626           | (1,647,784)          |
| Total capital assets being depreciated.....                    | <u>(15,444,592)</u>  | <u>(912,489)</u>    | <u>781,917</u>   | <u>(15,575,164)</u>  |
| Total capital assets being depreciated, net.....               | <u>14,637,187</u>    | <u>(227,993)</u>    | <u>-</u>         | <u>14,409,194</u>    |
| Total municipal light enterprise fund capital assets, net..... | <u>\$ 14,660,163</u> | <u>\$ (227,993)</u> | <u>\$ -</u>      | <u>\$ 14,432,170</u> |

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

**Governmental Activities:**

|                               |            |
|-------------------------------|------------|
| General government.....       | \$ 148,160 |
| Finance.....                  | 17,154     |
| Public safety.....            | 222,372    |
| Education.....                | 1,203,950  |
| Public works.....             | 396,036    |
| Code enforcement.....         | 2,400      |
| Planning and development..... | 15,980     |
| Human services.....           | 25,243     |
| Library.....                  | 69,183     |

Total depreciation expense - governmental activities..... \$ 2,100,478

**Business-Type Activities:**

|                      |            |
|----------------------|------------|
| Water.....           | \$ 543,955 |
| Sewer.....           | 503,803    |
| Municipal light..... | 912,489    |

Total depreciation expense - business-type activities..... \$ 1,960,247

**NOTE 5 – INTERFUND TRANSFERS**

There were no interfund receivables and/or payables between funds at June 30, 2014. Interfund transfers for the year ended June 30, 2014 are summarized as follows:

| Transfers Out:                 | Transfers In:    |                             |                       |                     |
|--------------------------------|------------------|-----------------------------|-----------------------|---------------------|
|                                | General Fund     | Nonmajor Governmental Funds | Water Enterprise Fund | Total               |
| General Fund.....              | \$ -             | \$ 622,071                  | \$ -                  | \$ 622,071 (1)      |
| Feoffee's Trust Fund.....      | -                | 806,022                     | -                     | 806,022 (2)         |
| Nonmajor Governmental Funds... | <u>73,466</u>    | <u>-</u>                    | <u>69,178</u>         | <u>142,644 (3)</u>  |
| Total.....                     | <u>\$ 73,466</u> | <u>\$ 1,428,093</u>         | <u>\$ 69,178</u>      | <u>\$ 1,570,737</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 2015 operating budget and to fund expenditures from the waterways improvements and tourism development nonmajor special revenue funds. Transfers were also made to the water enterprise fund to fund capital projects.

**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 year ended June 30, 2014 is as follows:

**Governmental Activities:**

| Type                               | Purpose                | Rate (%) | Due Date | Balance at June 30, 2013 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2014 |
|------------------------------------|------------------------|----------|----------|--------------------------|-----------------|-------------------|--------------------------|
| BAN                                | MCWT Title V Loan..... | 0.00     | 12/31/14 | \$ 1,000,000             | \$ -            | \$ -              | \$ 1,000,000             |
| BAN                                | Municipal Purpose..... | 1.00     | 06/08/15 | -                        | 55,000          | -                 | 55,000                   |
| Total Governmental Activities..... |                        |          |          | \$ 1,000,000             | \$ 55,000       | \$ -              | \$ 1,055,000             |

**Business-Type Activities:**

| Type                                | Purpose                | Rate (%) | Due Date | Balance at June 30, 2013 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2014 |
|-------------------------------------|------------------------|----------|----------|--------------------------|-----------------|-------------------|--------------------------|
| BAN                                 | Water.....             | 1.00     | 06/08/15 | \$ -                     | \$ 260,000      | \$ -              | \$ 260,000               |
| BAN                                 | Sewer - MCWT Loan..... | 0.13     | 12/31/14 | -                        | 2,246,791       | -                 | 2,246,791                |
| BAN                                 | Sewer.....             | 1.00     | 06/08/15 | -                        | 1,535,000       | -                 | 1,535,000                |
| Total Sewer .....                   |                        |          |          | -                        | 3,781,791       | -                 | 3,781,791                |
| Total Business-Type Activities..... |                        |          |          | \$ -                     | \$ 4,041,791    | \$ -              | \$ 4,041,791             |

**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, 2014 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, 2013 | Issued | Redeemed       | Outstanding at June 30, 2014 |
|--------------------------------------|--------------------|----------------------|-------------------|------------------------------|--------|----------------|------------------------------|
| Municipal Purpose Bonds of 1999..... | 2020               | \$ 32,333,000        | 3.50 - 5.00       | \$ 15,255,000                | \$ -   | \$ (1,875,000) | \$ 13,380,000                |
| Municipal Purpose Bonds of 2003..... | 2018               | 847,240              | 2.35 - 4.00       | 335,000                      | -      | (67,000)       | 268,000                      |
| Municipal Purpose Bonds of 2005..... | 2020               | 525,000              | 2.75 - 5.00       | 245,000                      | -      | (35,000)       | 210,000                      |
| Municipal Purpose Bonds of 2007..... | 2027               | 1,615,000            | 4.00 - 5.00       | 1,106,500                    | -      | (81,000)       | 1,025,500                    |
| Municipal Purpose Bonds of 2008..... | 2018               | 400,000              | 3.25 - 5.00       | 200,000                      | -      | (40,000)       | 160,000                      |
| Municipal Purpose Bonds of 2010..... | 2025               | 1,382,000            | 2.00 - 5.00       | 775,000                      | -      | (185,000)      | 590,000                      |
| Municipal Purpose Bonds of 2010..... | 2029               | 6,181,400            | 2.00 - 5.00       | 5,395,000                    | -      | (605,000)      | 4,790,000                    |
| Municipal Purpose Bonds of 2011..... | 2030               | 1,600,000            | 2.00 - 3.25       | 1,430,000                    | -      | (85,000)       | 1,345,000                    |
| Municipal Purpose Bonds of 2013..... | 2023               | 525,000              | 1.75 - 2.00       | 525,000                      | -      | (55,000)       | 470,000                      |
| Total Governmental Funds.....        |                    |                      |                   | \$ 25,266,500                | \$ -   | \$ (3,028,000) | \$ 22,238,500                |

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

| <u>Year</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|-------------|----------------------|---------------------|----------------------|
| 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              | 4,504               | 179,504              |
| Totals..... | \$ <u>22,238,500</u> | \$ <u>3,803,807</u> | \$ <u>26,042,307</u> |

**Bonds and Notes Payable Schedule – Enterprise Funds**

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

| Project   | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2013 | Issued | Redeemed       | Outstanding at June 30, 2014 |
|---|--------------------|----------------------|-------------------|------------------------------|--------|----------------|------------------------------|
| <b>Water Projects</b>                             |                    |                      |                   |                              |        |                |                              |
| Land Acquisition.....                             | 2018               | \$ 306,112           | 2.35 - 4.00       | \$ 110,000                   | \$ -   | \$ (22,000)    | \$ 88,000                    |
| Water.....  | 2020               | 1,355,000            | 2.75 - 5.00       | 500,000                      | -      | (105,000)      | 395,000                      |
| Water.....  | 2027               | 900,000              | 4.00 - 5.00       | 630,000                      | -      | (45,000)       | 585,000                      |
| Water.....  | 2028               | 550,000              | 3.25 - 5.00       | 400,000                      | -      | (30,000)       | 370,000                      |
| Water.....  | 2025               | 893,000              | 2.00 - 5.01       | 625,000                      | -      | (85,000)       | 540,000                      |
| Water.....  | 2030               | 400,000              | 2.00 - 3.25       | 350,000                      | -      | (25,000)       | 325,000                      |
| Water.....  | 2028               | 690,000              | 1.75-2.00         | 690,000                      | -      | (50,000)       | 640,000                      |
| Water (MCWT).....                                 | 2033               | 1,145,359            | 2.00              | 1,145,359                    | -      | (46,331)       | 1,099,028                    |
| Total Water Enterprise.....                       |                    |                      |                   | 4,450,359                    | -      | (408,331)      | 4,042,028                    |
| <b>Sewer Projects</b>                             |                    |                      |                   |                              |        |                |                              |
| Sewer 97-19 (MCWT).....                           | 2019               | 1,863,200            | Variable          | 677,900                      | -      | (104,800)      | 573,100                      |
| Sewer.....  | 2018               | 150,000              | 2.35 - 4.00       | 55,000                       | -      | (11,000)       | 44,000                       |
| Sewer.....  | 2016               | 57,000               | 2.75 - 5.00       | 15,000                       | -      | (5,000)        | 10,000                       |
| Sewer.....  | 2027               | 977,000              | 4.00 - 5.00       | 678,500                      | -      | (49,000)       | 629,500                      |
| Sewer.....  | 2022               | 813,600              | 2.00 - 3.25       | 725,000                      | -      | (85,000)       | 640,000                      |
| Sewer (MCWT).....                                 | 2023               | 1,952,534            | 2.00              | 1,952,534                    | -      | (78,982)       | 1,873,552                    |
| Sewer.....  | 2028               | 430,000              | 1.75-2.40         | 430,000                      | -      | (30,000)       | 400,000                      |
| Total Sewer Enterprise.....                       |                    |                      |                   | 4,533,934                    | -      | (363,782)      | 4,170,152                    |
| <b>Municipal Light Projects</b>                   |                    |                      |                   |                              |        |                |                              |
| Electric Sub Station and System Improvements..... | 2028               | 6,000,000            | 3.25 - 4.10       | 4,500,000                    | -      | (300,000)      | 4,200,000                    |
| Electric Sub Station and System Improvements..... | 2025               | 600,000              | 2.00 - 5.01       | 480,000                      | -      | (40,000)       | 440,000                      |
| Wind Turbine.....                                 | 2030               | 2,642,000            | 2.00 - 3.25       | 2,350,000                    | -      | (140,000)      | 2,210,000                    |
| Total Municipal Light Enterprise.....             |                    |                      |                   | 7,330,000                    | -      | (480,000)      | 6,850,000                    |
| Total Enterprise Funds.....                       |                    |                      |                   | \$ 16,314,293                | \$ -   | \$ (1,252,113) | \$ 15,062,180                |

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

| <u>Year</u>    | <u>Principal</u>  | <u>Interest</u>     | <u>Total</u>         |
|----------------|-------------------|---------------------|----------------------|
| 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           | 2,580               | 191,124              |
| Totals..... \$ | <u>15,062,180</u> | <u>\$ 3,621,737</u> | <u>\$ 18,683,917</u> |

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$147,627 and interest costs for \$55,380. The principal subsidies are guaranteed and therefore a \$147,627 intergovernmental receivable has been recorded in the sewer enterprise fund at June 30, 2014. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2014 principal and interest subsidies totaled \$28,493 and \$19,085, respectively.

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During 2014, \$1,389,000 of such assistance was received. Approximately \$8,339,000 will be received in future years. Of this amount, approximately \$3,189,000 represents reimbursement of long-term interest costs, and approximately \$5,150,000 represents reimbursement of approved construction costs. Accordingly, a \$5,150,000 intergovernmental receivable and corresponding unavailable revenue have been reported in governmental fund financial statements. The net change in unavailable 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, 2014, the Town had the following authorized and unissued debt:

| Purpose  | Amount               |
|--|----------------------|
| Bridges.....                                     | \$ 110,000           |
| Open Space.....                                  | 6,385,000            |
| Riverwalk.....                                   | 75,000               |
| Water Mains.....                                 | 2,729,641            |
| Street Reconstruction.....                       | 5,000,000            |
| Wastewater Treatment Plant.....                  | 235,675              |
| Water Departmental Equipment Rehabilitation..... | 1,537,000            |
| <b>Total.....</b>                                | <b>\$ 16,072,316</b> |

Changes in Long-term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

|  | Beginning<br>Balance | Additions           | Reductions            | Ending<br>Balance    | Current<br>Portion  |
|--|----------------------|---------------------|-----------------------|----------------------|---------------------|
| <b>Governmental Activities:</b>                                    |                      |                     |                       |                      |                     |
| Bonds payable.....   | \$ 25,266,500        | \$ -                | \$ (3,028,000)        | \$ 22,238,500        | \$ 3,048,000        |
| Other postemployment benefits....                                  | 7,241,009            | 3,252,609           | (1,076,846)           | 9,416,772            | -                   |
| Compensated absences.....  | 1,358,702            | 553,024             | (939,301)             | 972,425              | 796,684             |
| <b>Total governmental activity<br/>long-term liabilities.....</b>  | <b>\$ 33,866,211</b> | <b>\$ 3,805,633</b> | <b>\$ (5,044,147)</b> | <b>\$ 32,627,697</b> | <b>\$ 3,844,684</b> |
| <b>Business-Type Activities:</b>                                   |                      |                     |                       |                      |                     |
| Bonds payable.....   | \$ 16,314,293        | \$ -                | \$ (1,252,113)        | \$ 15,062,180        | \$ 1,222,937        |
| Other postemployment benefits....                                  | 261,823              | 322,577             | (254,751)             | 329,649              | -                   |
| Compensated absences.....  | 253,425              | 107,127             | (91,588)              | 268,964              | 87,568              |
| <b>Total business-type activity<br/>long-term liabilities.....</b> | <b>\$ 16,829,541</b> | <b>\$ 429,704</b>   | <b>\$ (1,598,452)</b> | <b>\$ 15,660,793</b> | <b>\$ 1,310,505</b> |

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    |
| <b>FUND BALANCES:</b>                 |                         |                             |                             |                             |
| Nonspendable:                         |                         |                             |                             |                             |
| Permanent fund principal.....\$       | -                       | \$ 21,810,016               | \$ 746,762                  | \$ 22,556,778               |
| Restricted for:                       |                         |                             |                             |                             |
| Feoffee's Trust.....                  | -                       | 5,116,726                   | -                           | 5,116,726                   |
| Town revolving funds.....             | -                       | -                           | 168,003                     | 168,003                     |
| Town gifts and grant funds.....       | -                       | -                           | 166,703                     | 166,703                     |
| Town receipts reserved.....           | -                       | -                           | 338,045                     | 338,045                     |
| Other Town special revenue.....       | -                       | -                           | 38,174                      | 38,174                      |
| Open space land acquisition.....      | -                       | -                           | 112,847                     | 112,847                     |
| School gifts and grant funds.....     | -                       | -                           | 700,992                     | 700,992                     |
| School revolving funds.....           | -                       | -                           | 1,504,437                   | 1,504,437                   |
| Ipswich affordable housing.....       | -                       | -                           | 202,260                     | 202,260                     |
| Town capital projects.....            | -                       | -                           | 727,899                     | 727,899                     |
| Expendable trust funds.....           | -                       | -                           | 1,046,752                   | 1,046,752                   |
| Committed to:                         |                         |                             |                             |                             |
| Education.....                        | 50,000                  | -                           | -                           | 50,000                      |
| Assigned to:                          |                         |                             |                             |                             |
| General government.....               | 59,745                  | -                           | -                           | 59,745                      |
| Finance.....                          | 33,778                  | -                           | -                           | 33,778                      |
| Public safety.....                    | 40,803                  | -                           | -                           | 40,803                      |
| Education.....                        | 81,842                  | -                           | -                           | 81,842                      |
| Public works.....                     | 234,690                 | -                           | -                           | 234,690                     |
| Code enforcement.....                 | 5,500                   | -                           | -                           | 5,500                       |
| Planning and development.....         | 29,690                  | -                           | -                           | 29,690                      |
| Human services.....                   | 8,266                   | -                           | -                           | 8,266                       |
| Employee benefits.....                | 21,310                  | -                           | -                           | 21,310                      |
| Property and liability insurance..... | 46,991                  | -                           | -                           | 46,991                      |
| Miscellaneous.....                    | 7,145                   | -                           | -                           | 7,145                       |
| Debt service interest.....            | 86,053                  | -                           | -                           | 86,053                      |
| Unassigned.....                       | 3,898,031               | -                           | (236,595)                   | 3,661,436                   |
| <b>TOTAL FUND BALANCES.....\$</b>     | <b><u>4,603,844</u></b> | <b><u>\$ 26,926,742</u></b> | <b><u>\$ 5,516,279</u></b>  | <b><u>\$ 37,046,865</u></b> |

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes on an as needed basis. The creation of a Stabilization fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any changes to the purpose of the fund, along with any additions to or appropriations from the fund, require a two-thirds vote of the legislative body. The stabilization fund balance can be used for general and/or capital purposes upon approval of Town Meeting. Additions to and withdrawals from the funds can only be made upon Town Meeting approval. In accordance with the Massachusetts General Law the Town has established a general and a capital stabilization fund. 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, 2014 is \$1,300,097.

#### **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 \$3,549,000 for the year ended June 30, 2014, 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 years ended June 30, 2014, 2013, and 2012 were \$2,607,637, \$2,291,498, and \$2,108,849, respectively, which equaled its required contribution for each 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 2014, the Town’s age-adjusted contribution to the plan totaled \$1,331,597.

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 2014, the Town pre-funded future OPEB liabilities totaling approximately \$340,000 by contributing funds to the Other Postemployment Benefit Fund reported within the Fiduciary Funds financial statements. As of June 30, 2014, the balance of this fund totaled \$2 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.....                | \$ 2,772,933               |
| Interest on net OPEB obligation.....             | 300,110                    |
| Adjustments to annual required contribution..... | (417,202)                  |
| Amortization of actuarial (gains)/losses.....    | <u>919,345</u>             |
| Annual OPEB cost (expense).....                  | 3,575,186                  |
| Contributions made.....                          | (1,331,597)                |
| Increase in net OPEB obligation.....             | 2,243,589                  |
| Net OPEB obligation - beginning of year.....     | <u>7,502,832</u>           |
| Net OPEB obligation - end of year.....           | <u><u>\$ 9,746,421</u></u> |

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the previous 5 years was as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------|------------------|--|---------------------|
| 6/30/2014  | \$ 3,575,186     | 38.0%                                      | \$ 9,746,421        |
| 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) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 7/1/2013                 | \$ 1,393,277                  | \$ 36,142,256   | \$ 34,748,979             | 3.9%               | \$ 23,637,130       | 147.0%  |
| 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, 2013, 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 6.0% 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 July 1, 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, 2014, 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

**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.

In accordance with the new trust agreement, the first payment of \$800,000 plus accrued interest was received by the schools in 2013, and another \$800,000 plus accrued interest was received during 2014. The new trust agreement also stipulates that the Town will receive \$800,000 in fiscal year 2015 and annual payments, as determined by the Trust, thereafter. The two \$800,000 payments plus interest have been recorded in the nonmajor governmental funds where the Town has established a fund to be used by the School Department in accordance with the Trust agreement.

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 Feoffees trust as a major governmental fund in the fund based financial statements. As of June 30, 2014, the new trust reported a balance of \$26.9 million which is held in investments and mortgages and loans on the properties.

**NOTE 14 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. Financial statement changes include the presentation of deferred outflows and inflows in the Statement of Net Position and Balance Sheet. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.

- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

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

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 \$330,794 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, 2014 totaled \$1,458,230.

In addition to the working capital deposit the Department also has made other power supply related prepayments totaling approximately \$279,000.

### 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, 2014.

## **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, 2014, 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 year ended June 30, 2014, was as follows:

|  | Beginning<br>Balance | Increases    | Decreases | Ending<br>Balance |
|--|----------------------|--------------|-----------|-------------------|
| <u>Capital assets not being depreciated:</u>                   |                      |              |           |                   |
| Land.....  | \$ 22,976            | \$ -         | \$ -      | \$ 22,976         |
| <u>Capital assets being depreciated:</u>                       |                      |              |           |                   |
| Production plant.....  | 7,390,388            | 35,062       | (23,210)  | 7,402,240         |
| Transmission plant.....  | 1,943,868            | -            | -         | 1,943,868         |
| Distribution plant.....  | 18,205,931           | 627,859      | (713,081) | 18,120,709        |
| General plant.....   | 2,541,592            | 21,575       | (45,626)  | 2,517,541         |
| Total capital assets being depreciated.....                    | 30,081,779           | 684,496      | (781,917) | 29,984,358        |
| <u>Less accumulated depreciation for:</u>                      |                      |              |           |                   |
| Production plant.....  | (4,911,937)          | (157,631)    | 23,210    | (5,046,358)       |
| Transmission plant.....  | (545,544)            | (89,554)     | -         | (635,098)         |
| Distribution plant.....  | (8,346,303)          | (612,702)    | 713,081   | (8,245,924)       |
| General plant.....   | (1,640,808)          | (52,602)     | 45,626    | (1,647,784)       |
| Total capital assets being depreciated.....                    | (15,444,592)         | (912,489)    | 781,917   | (15,575,164)      |
| Total capital assets being depreciated, net.....               | 14,637,187           | (227,993)    | -         | 14,409,194        |
| Total municipal light enterprise fund capital assets, net..... | \$ 14,660,163        | \$ (227,993) | \$ -      | \$ 14,432,170     |

**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 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 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 \$31,250 at June 30, 2014.

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 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 \$107,250 at June 30, 2014.

#### **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, 2014 was \$1,333,357 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 \$241,000 for the year ended June 30, 2014, which represents approximately 9.3% 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.....                | \$ | 117,679              |
| Interest on net OPEB obligation.....             |    | 1,592                |
| Adjustments to annual required contribution..... |    | (2,215)              |
| Amortization of actuarial (gains)/losses.....    |    | <u>60,754</u>        |
| Annual OPEB cost (expense).....                  |    | 177,810              |
| Contributions made.....                          |    | (150,059)            |
| Increase (decrease) in net OPEB obligation.....  |    | 27,751               |
| Net OPEB obligation - beginning of year.....     |    | <u>39,821</u>        |
| Net OPEB obligation - end of year.....           | \$ | <u><u>67,572</u></u> |

The Department’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 was as follows:

| <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|-------------------------|---|----------------------------|
| 6/30/2014         | \$ 177,810              | 84.4%   | \$ 67,572                  |

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> |
|---------------------------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|--|
| 7/1/2013                        | \$ 264,746                           | \$ 2,186,709   | \$ 1,921,963                     | 12.1%                     | \$ 1,011,807               | 190.0%   |

**NOTE H – LONG TERM DEBT**

Details relating to the Department’s outstanding indebtedness at June 30, 2014 are as follows:

| <u>Project</u>                                    | <u>Maturities Through</u> | <u>Original Loan Amount</u> | <u>Interest Rate (%)</u> | <u>Outstanding at June 30, 2013</u> | <u>Issued</u> | <u>Redeemed</u>  | <u>Outstanding at June 30, 2014</u> |
|---|---------------------------|-----------------------------|--------------------------|-------------------------------------|---------------|------------------|-------------------------------------|
| Electric Sub Station and System Improvements..... | 2028                      | \$ 6,000,000                | 3.25 - 4.10              | \$ 4,500,000                        | \$ -          | \$ (300,000)     | \$ 4,200,000                        |
| Electric Sub Station and System Improvements..... | 2025                      | 600,000                     | 2.00 - 5.01              | 480,000                             | -             | (40,000)         | 440,000                             |
| Wind Turbine.....                                 | 2030                      | 2,642,000                   | 2.00 - 3.25              | <u>2,350,000</u>                    | <u>-</u>      | <u>(140,000)</u> | <u>2,210,000</u>                    |
| Total Bonds Payable.....                          |                           |                             |                          | \$ 7,330,000                        | \$ -          | \$ (480,000)     | \$ 6,850,000                        |

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

| <u>Year</u>    | <u>Principal</u> | <u>Interest</u>     | <u>Total</u>        |
|----------------|------------------|---------------------|---------------------|
| 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>6,850,000</u> | <u>\$ 2,098,460</u> | <u>\$ 8,948,460</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 year ended June 30, 2014 under these arrangements are as follows:

|   |                   |
|---|-------------------|
| Payment in lieu of taxes.....                                   | \$ 330,794        |
| Subsidized street lighting cost of power.....                   | 63,396            |
| Subsidized street lighting maintenance.....                     | 104,899           |
| Town salaries paid by the Department.....                       | 57,969            |
| Non-reimbursed services and materials provided to the Town..... | <u>18,721</u>     |
| Total.....  | <u>\$ 575,779</u> |

The Department bills Town departments for electric light usage. The amount included in revenue under this arrangement was \$727,290 for the year ended June 30, 2014 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

any payment when due, other Cooperative Members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

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

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

As of June 30, 2014, total capital expenditures for the Berkshire Wind Facility amounted to \$58,990,077 of which \$3,785,000, represents the amount associated with the Plant’s share of the Capability of the Berkshire Wind Facility of which it is Member, although such amount is not allocated to the Plant. The Cooperative’s debt outstanding for the Berkshire Wind Facility includes bonds totaling \$57,860,000, of which \$3,712,000 is associated with the Plant’s share of Capability of the Berkshire Wind Facility of which it is Member, although such amount is not allocated to the Plant. As of June 30, 2014, the Cooperative’s total future debt service requirement on outstanding bonds issued for the Projects is \$86,387,000, of which \$5,543,000 is anticipated to be billed to the Plant in the future.

The estimated aggregate amount of the Ipswich Municipal Light Plant required payments under the PSA, exclusive of the Reserve and Contingency Fund billings, to the Cooperative at June 30, 2014 and estimated for future years is shown below.

| For Years Ended<br>June 30, | Annual Costs        |
|-----------------------------|---------------------|
| 2015.....                   | \$ 346,000          |
| 2016.....                   | 347,000             |
| 2017.....                   | 346,000             |
| 2018.....                   | 346,000             |
| 2019.....                   | 346,000             |
| 2020 to 2024.....           | 1,733,000           |
| 2025 to 2029.....           | 1,733,000           |
| Thereafter.....             | <u>346,000</u>      |
| Total.....                  | <u>\$ 5,543,000</u> |

**NOTE L – COMMITMENTS AND CONTINGENCIES**

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



This page intentionally left blank.

# ***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**

YEAR ENDED JUNE 30, 2014

|   | Budgeted Amounts   |                     | Actual<br>Budgetary<br>Amounts | Amounts<br>Carried Forward<br>To Next Year | Variance to<br>Final Budget |
|---|--------------------|---------------------|--------------------------------|--|-----------------------------|
|   | Original<br>Budget | Final<br>Budget     |                                |  |                             |
| <b>REVENUES:</b>  |                    |                     |                                |  |                             |
| Real estate and personal property taxes,<br>net of tax refunds.....\$     | 31,629,774         | \$ 31,629,774       | \$ 31,724,928                  | \$ -                                       | 95,154                      |
| Tax liens.....  | -                  | -                   | 238,799                        | -  | 238,799                     |
| Motor vehicle and other excise taxes.....                                 | 1,612,000          | 1,612,000           | 1,958,721                      | -  | 346,721                     |
| Meals tax.....  | 165,000            | 165,000             | 199,132                        | -  | 34,132                      |
| Charges for services.....   | 30,000             | 30,000              | 31,352                         | -  | 1,352                       |
| Penalties and interest on taxes.....                                      | 134,147            | 134,147             | 207,076                        | -  | 72,929                      |
| Payments in lieu of taxes.....  | 427,000            | 427,000             | 468,330                        | -  | 41,330                      |
| Licenses and permits.....   | 549,800            | 549,800             | 672,073                        | -  | 122,273                     |
| Fines and forfeitures.....  | 47,000             | 47,000              | 44,888                         | -  | (2,112)                     |
| Intergovernmental.....  | 6,172,457          | 6,281,315           | 6,466,006                      | -  | 184,691                     |
| Departmental and other.....   | 327,956            | 327,956             | 370,802                        | -  | 42,846                      |
| Investment income.....  | 40,000             | 40,000              | 37,680                         | -  | (2,320)                     |
| <b>TOTAL REVENUES.....</b>  | <b>41,135,134</b>  | <b>41,243,992</b>   | <b>42,419,787</b>              | <b>-</b>                                   | <b>1,175,795</b>            |
| <b>EXPENDITURES:</b>  |                    |                     |                                |  |                             |
| Current:  |                    |                     |                                |  |                             |
| General government.....   | 405,242            | 467,591             | 407,205                        | 59,745                                     | 641                         |
| Finance.....  | 1,072,123          | 1,070,478           | 1,025,327                      | 33,778                                     | 11,373                      |
| Public safety.....  | 4,324,144          | 4,496,214           | 4,441,550                      | 40,803                                     | 13,861                      |
| Education.....  | 22,423,421         | 22,513,522          | 22,379,020                     | 131,842                                    | 2,660                       |
| Public works.....   | 4,087,500          | 4,097,064           | 3,771,106                      | 234,690                                    | 91,268                      |
| Code enforcement.....   | 429,423            | 436,165             | 426,048                        | 5,500                                      | 4,617                       |
| Planning and development.....   | 276,779            | 282,184             | 245,596                        | 29,690                                     | 6,898                       |
| Human services.....   | 480,346            | 482,939             | 468,147                        | 8,266                                      | 6,526                       |
| Library.....  | 555,521            | 593,600             | 592,567                        | -  | 1,033                       |
| Employee benefits.....  | 2,714,720          | 2,539,055           | 2,476,549                      | 21,310                                     | 41,196                      |
| Property and liability insurance.....                                     | 264,515            | 282,739             | 209,017                        | 46,991                                     | 26,731                      |
| Miscellaneous.....  | 137,163            | 185,204             | 102,006                        | 7,145                                      | 76,053                      |
| State and county charges.....   | 745,903            | 745,903             | 742,490                        | -  | 3,413                       |
| Debt service:   |                    |                     |                                |  |                             |
| Principal.....  | 3,025,500          | 3,028,000           | 3,028,000                      | -  | -                           |
| Interest.....   | 1,098,032          | 1,095,532           | 988,466                        | 86,053                                     | 21,013                      |
| <b>TOTAL EXPENDITURES.....</b>  | <b>42,040,332</b>  | <b>42,316,190</b>   | <b>41,303,094</b>              | <b>705,813</b>                             | <b>307,283</b>              |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES.....</b> | <b>(905,198)</b>   | <b>(1,072,198)</b>  | <b>1,116,693</b>               | <b>(705,813)</b>                           | <b>1,483,078</b>            |
| <b>OTHER FINANCING SOURCES (USES):</b>                                    |                    |                     |                                |  |                             |
| Sale of capital assets.....   | -                  | -                   | 13,400                         | -  | 13,400                      |
| Transfers in.....   | 62,938             | 62,938              | 62,938                         | -  | -                           |
| Transfers out.....  | -                  | (1,323,100)         | (1,323,100)                    | -  | -                           |
| <b>TOTAL OTHER FINANCING SOURCES (USES).....</b>                          | <b>62,938</b>      | <b>(1,260,162)</b>  | <b>(1,246,762)</b>             | <b>-</b>                                   | <b>13,400</b>               |
| <b>NET CHANGE IN FUND BALANCE.....</b>                                    | <b>(842,260)</b>   | <b>(2,332,360)</b>  | <b>(130,069)</b>               | <b>(705,813)</b>                           | <b>1,496,478</b>            |
| <b>BUDGETARY FUND BALANCE, Beginning of year.....</b>                     | <b>3,433,816</b>   | <b>3,433,816</b>    | <b>3,433,816</b>               | <b>-</b>                                   | <b>-</b>                    |
| <b>BUDGETARY FUND BALANCE, End of year..... \$</b>                        | <b>2,591,556</b>   | <b>\$ 1,101,456</b> | <b>\$ 3,303,747</b>            | <b>\$ (705,813)</b>                        | <b>\$ 1,496,478</b>         |

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<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(A) | Actuarial<br>Accrued<br>Liability (AAL)<br>Entry Age<br>(B) | Unfunded<br>AAL<br>(UAAL)<br>(B-A) | Funded<br>Ratio<br>(A/B) | Covered<br>Payroll<br>(C) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 01/01/13                       | \$ 314,565,925                         | \$ 619,339,080  | \$ 304,773,155                     | 50.8%                    | \$ 119,292,000            | 255.5%  |
| 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, 2013, is approximately 10.6%.

See notes to required supplementary information.

**ESSEX REGIONAL RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

| Year Ended<br>June 30 | System Wide                         |                                |                           | Town of Ipswich                |  |
|-----------------------|-------------------------------------|--------------------------------|---------------------------|--------------------------------|--|
|                       | Annual<br>Required<br>Contributions | (A)<br>Actual<br>Contributions | Percentage<br>Contributed | (B)<br>Actual<br>Contributions | (B/A)<br>Town's Percentage<br>of System Wide<br>Actual Contributions |
| 2014                  | \$ 24,592,599                       | \$ 24,592,599                  | 100%                      | \$ 2,607,637                   | 10.60%   |
| 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<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(A) | Actuarial<br>Accrued<br>Liability (AAL)<br>Projected Unit Credit<br>(B) | Unfunded<br>AAL<br>(UAAL)<br>(B-A) | Funded<br>Ratio<br>(A/B) | Covered<br>Payroll<br>(C) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 7/1/2013                       | \$ 1,393,277                           | \$ 36,142,256   | \$ 34,748,979                      | 3.9%                     | \$ 23,637,130             | 147.0%  |
| 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**

| Year<br>Ended | Annual<br>Required<br>Contribution | Actual<br>Contributions<br>Made | Percentage<br>Contributed |
|---------------|------------------------------------|---------------------------------|---------------------------|
| 2014          | \$ 2,772,933                       | \$ 1,331,597                    | 48%                       |
| 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, 2013  |
| Actuarial cost method.....         | Projected Unit Credit   |
| Amortization method.....           | Level dollar amortization over 30 years at the last valuation |
| Remaining amortization period..... | 25 years as of July 1, 2013                                   |

Actuarial Assumptions:

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

Plan Membership:

|  |                   |
|--|-------------------|
| Current retirees, beneficiaries, and dependents... | 220               |
| Current active members.....                        | <u>446</u>        |
| Total.....   | <u><u>666</u></u> |

See notes to required supplementary information.

**NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

1. Budgetary Information

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

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

The majority of the Town’s appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current 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 2014 budget includes \$41.4 million in appropriations and other amounts to be raised and \$688,000 in encumbrances and appropriations carried over from previous years. During 2014, Town Meeting approved supplemental appropriations totaling \$1.6 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 year ended June 30, 2014, is presented below:

|  |                    |
|--|--------------------|
| Net change in fund balance, budgetary basis.....                               | \$ (130,069)       |
| <u>Perspective difference:</u>   |                    |
| Activity of the stabilization funds recorded in the general fund for GAAP..... | 545,952            |
| <u>Basis of accounting differences:</u>  |                    |
| Net increase in revenues due to on-behalf payments.....                        | 3,549,000          |
| Net increase in recording expenditures due to on-behalf payments.....          | <u>(3,549,000)</u> |
| Net change in fund balance, GAAP basis.....                                    | <u>\$ 415,883</u>  |

**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, 2013   |
| Actuarial Cost Method.....         | Entry Age Normal Cost Method  |
| Amortization Method.....           | Approximate level percent of payroll, closed  |
| Remaining Amortization Period..... | 21 years remaining for fresh start base   |
| Asset Valuation Method.....        | A five-year (20% per year) smoothing method that reflects differences between expected market asset return and actual market return (changed from a method that used expected asset return on actuarial value of assets). |

Actuarial Assumptions:

|                                 |   |
|---------------------------------|---|
| Investment rate of return.....  | 8.00%   |
| Projected salary increases..... | 7.50% to 3.75% over 5 years                       |
| Cost of living adjustments..... | 3.00% for the first \$13,000 of retirement income |

Plan Membership:

|  |                     |
|--|---------------------|
| Retired participants and beneficiaries receiving benefits..... | 1,670               |
| Inactive participants.....                                     | 1,009               |
| Active participants.....                                       | <u>2,816</u>        |
| Total.....   | <u><u>5,495</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 3.9%. 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 NET POSITION**

JUNE 30, 2014 AND 2013

|  | 2014       | 2013          |
|--|------------|---------------|
| <b>ASSETS</b>  |            |               |
| CURRENT:   |            |               |
| Cash and cash equivalents..... \$                    | 37,858     | \$ 148,904    |
| Restricted cash and cash equivalents.....            | 383,998    | 173,301       |
| Receivables, net of allowance for uncollectibles:    |            |               |
| User fees.....                                       | 1,991,719  | 2,007,663     |
| Purchased power working capital and prepayments..... | 1,737,667  | 1,757,442     |
| Inventory.....                                       | 152,044    | 157,628       |
| Total current assets.....                            | 4,303,286  | 4,244,938     |
| NONCURRENT:  |            |               |
| Restricted cash and cash equivalents.....            | 1,280,792  | 1,426,874     |
| Capital assets, net of accumulated depreciation..... |            |               |
| Nondepreciable.....                                  | 22,976     | 22,976        |
| Depreciable.....                                     | 14,409,194 | 14,637,187    |
| Total noncurrent assets.....                         | 15,712,962 | 16,087,037    |
| TOTAL ASSETS.....                                    | 20,016,248 | 20,331,975    |
| <b>LIABILITIES</b>                                   |            |               |
| CURRENT:   |            |               |
| Accounts payable.....                                | 1,604,871  | 1,749,263     |
| Accrued payroll.....                                 | 32,538     | 25,231        |
| Accrued interest.....                                | 25,440     | 26,865        |
| Customer deposits payable.....                       | 105,935    | 105,872       |
| Other liabilities.....                               | 816,124    | 677,309       |
| Compensated absences.....                            | 16,939     | 12,474        |
| Bonds and notes payable.....                         | 480,000    | 480,000       |
| Total current liabilities.....                       | 3,081,847  | 3,077,014     |
| NONCURRENT:  |            |               |
| Compensated absences.....                            | 152,446    | 112,262       |
| Other postemployment benefits.....                   | 67,572     | 39,821        |
| Bonds and notes payable.....                         | 6,370,000  | 6,850,000     |
| Total noncurrent liabilities.....                    | 6,590,018  | 7,002,083     |
| TOTAL LIABILITIES.....                               | 9,671,865  | 10,079,097    |
| <b>NET POSITION</b>                                  |            |               |
| Net investment in capital assets.....                | 7,582,170  | 7,330,163     |
| Restricted for:                                      |            |               |
| Rate stabilization.....                              | 1,333,357  | 1,613,502     |
| Depreciation.....                                    | 102,345    | 45,372        |
| Unrestricted.....                                    | 1,326,511  | 1,263,841     |
| TOTAL NET POSITION..... \$                           | 10,344,383 | \$ 10,252,878 |

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

YEARS ENDED JUNE 30, 2014 AND 2013

|   | 2014                 | 2013                 |
|---|----------------------|----------------------|
| <b>OPERATING REVENUES:</b>                              |                      |                      |
| Charges for services .....                              | \$ 15,707,150        | \$ 14,654,952        |
| Other.....  | 375,513              | 323,650              |
| <b>TOTAL OPERATING REVENUES .....</b>                   | <b>16,082,663</b>    | <b>14,978,602</b>    |
| <b>OPERATING EXPENSES:</b>                              |                      |                      |
| Cost of services and administration .....               | 14,806,424           | 13,492,371           |
| Depreciation.....                                       | 912,489              | 907,320              |
| <b>TOTAL OPERATING EXPENSES .....</b>                   | <b>15,718,913</b>    | <b>14,399,691</b>    |
| <b>OPERATING INCOME (LOSS).....</b>                     | <b>363,750</b>       | <b>578,911</b>       |
| <b>NONOPERATING REVENUES (EXPENSES):</b>                |                      |                      |
| Investment income.....                                  | 8,306                | 13,722               |
| Interest expense.....                                   | (280,551)            | (296,188)            |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b> | <b>(272,245)</b>     | <b>(282,466)</b>     |
| <b>CHANGE IN NET POSITION.....</b>                      | <b>91,505</b>        | <b>296,445</b>       |
| <b>NET POSITION AT BEGINNING OF YEAR.....</b>           | <b>10,252,878</b>    | <b>9,956,433</b>     |
| <b>NET POSITION AT END OF YEAR.....</b>                 | <b>\$ 10,344,383</b> | <b>\$ 10,252,878</b> |

**MUNICIPAL LIGHT ENTERPRISE FUND**  
**COMPARATIVE SCHEDULE OF SALES OF ELECTRICITY**

YEARS ENDED JUNE 30, 2014 AND 2013

|                                 | <u>2014</u>          | <u>2013</u>          |
|---------------------------------|----------------------|----------------------|
| <u>SALES OF ELECTRICITY:</u>    |                      |                      |
| Residential.....                | \$ 7,048,129         | \$ 6,673,009         |
| Commercial.....                 | 818,673              | 810,208              |
| Industrial.....                 | 7,077,261            | 6,493,632            |
| Municipal.....                  | 661,648              | 578,174              |
| Private Lighting.....           | 35,799               | 34,289               |
| Street Lights.....              | <u>65,640</u>        | <u>65,640</u>        |
| TOTAL SALES OF ELECTRICITY..... | <u>\$ 15,707,150</u> | <u>\$ 14,654,952</u> |

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

YEARS ENDED JUNE 30, 2014 AND 2013

|  | 2014              | 2013                 |
|--|-------------------|----------------------|
| <u>Power Production Expenses:</u>                    |                   |                      |
| Purchased power.....                                 | \$ 11,770,103     | \$ 10,897,178        |
| Other power expenses.....                            | 505,127           | 323,469              |
| Total Power Production Expenses.....                 | <u>12,275,230</u> | <u>11,220,647</u>    |
| <u>Distribution Expenses:</u>                        |                   |                      |
| Station expenses.....                                | 84,294            | 84,238               |
| Customer installation expenses.....                  | 22,651            | 27,770               |
| Miscellaneous distribution expense.....              | 163,752           | 155,066              |
| Maintenance of overhead lines.....                   | 671,640           | 624,540              |
| Maintenance of street lights and signal systems..... | 54,770            | 17,125               |
| Total Distribution Expenses.....                     | <u>997,107</u>    | <u>908,739</u>       |
| <u>Customer Account Expenses:</u>                    |                   |                      |
| Customer records and collection.....                 | 150,050           | 139,074              |
| Uncollectible accounts.....                          | 8,113             | 25,852               |
| Total Customer Account Expenses.....                 | <u>158,163</u>    | <u>164,926</u>       |
| <u>Administrative and General Expenses:</u>          |                   |                      |
| Payments in lieu of taxes.....                       | 330,794           | 324,907              |
| Administrative and general salaries.....             | 454,673           | 385,151              |
| Office supplies and expenses.....                    | 117,141           | 103,155              |
| Outside services.....                                | 94,342            | 63,756               |
| Property and general insurance.....                  | 79,516            | 76,191               |
| Employee's pensions and benefits.....                | 239,796           | 204,748              |
| Miscellaneous general expense.....                   | 59,662            | 40,151               |
| Total Administrative and General Expenses.....       | <u>1,375,924</u>  | <u>1,198,059</u>     |
| TOTAL OPERATION AND MAINTENANCE EXPENSES... \$       | <u>14,806,424</u> | <u>\$ 13,492,371</u> |