

***FEOFFEES OF THE GRAMMAR SCHOOL IN THE TOWN OF
IPSWICH TRUST***

BASIC FINANCIAL STATEMENTS

***FOR THE INTERIM PERIOD AUGUST 9, 2012 THROUGH
AUGUST 10, 2012***

FEOFFEES OF THE GRAMMAR SCHOOL IN THE TOWN OF IPSWICH TRUST

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Financial Section

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Independent Auditors' Report

To the Feoffees of the Grammar School
In the Town of Ipswich Trust

We have audited the accompanying statements of net position of the Feoffees of the Grammar School in the Town of Ipswich Trust (the Trust) for the interim period of August 9, 2012 through August 10, 2012, and the related statement of activities for the year then ended, which collectively comprise the Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Feoffees of the Grammar School in the Town of Ipswich Trust's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

These financial statements, as noted in Note 1, present only the Feoffees of the Grammar School in the Town of Ipswich Trust and do not purport to, and do not present fairly the financial position of the Town of Ipswich, Massachusetts, for the interim period August 9, 2012 through August 10, 2012, and the changes in its financial position for the interim period in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Feoffees of the Grammar School of Ipswich Trust for the interim period of August 9, 2012 through August 10, 2012, and the results of its operations for the interim period in accordance with accounting principles generally accepted in the United States of America.

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

Powers & Sullivan LLC

May 31, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

As Feoffees of the Grammar School in the Town of Ipswich Trust, we offer readers of these financial statements this narrative overview and analysis of the Trust's financial activities for the interim period, August 9, 2012 through August 10, 2012. The Trust complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB), and Management's Discussion and Analysis are part of these requirements. The GASB is the authoritative standard-setting body that provides guidance on the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The Feoffees of the Grammar School in the Town of Ipswich Trust's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Feoffees of the Grammar School in the Town of Ipswich Trust's financial statements. The financial statements include the Statement of Financial Position, the Statement of Activities, the Statement of Cash Flows and the notes to the basic financial statements.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two 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 Trust's net assets changed during the interim period. 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 fees).

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Highlights of the Interim Period, August 9, 2012 through August 10, 2012

- The Trust recognized the revenue associated with the sale of the land and condominiums at Little Neck in accordance with the court judgment dated December 23, 2011 and the Trust Administration Order, totaling \$29,150,000.
- The interim period was established as beginning on the effective date of August 9, 2012, the date in which the master deed was filed, and ended at the sale of the last condominium unit on August 10, 2012.
- At the end of the interim period, total assets exceeded liabilities (i.e., net position) by \$24.5 million.

Financial Analysis

The following chart provides a summary of the Feoffees of the Grammar School in the Town of Ipswich Trust's financial data for the interim period, August 9, 2012 through August 10, 2012.

| | |
|---|-----------------------------|
| Assets: | |
| Current assets..... | \$ 18,861,138 |
| Noncurrent assets..... | 5,743,394 |
| Total assets..... | <u>24,604,532</u> |
| Liabilities: | |
| Current liabilities..... | <u>83,194</u> |
| Net Position: | |
| Restricted for: | |
| Permanent endowment..... | 22,021,338 |
| Future distributions..... | 2,400,000 |
| Unrestricted..... | <u>100,000</u> |
| Total net position..... | <u>\$ 24,521,338</u> |
| Revenues: | |
| Court ordered sale of Little Neck property..... | \$ 29,150,000 |
| Use and occupancy payments..... | 2,400,000 |
| Other..... | 128,963 |
| Total revenues..... | <u>31,678,963</u> |
| Expenses: | |
| Closing fees..... | 197,823 |
| Closing credits..... | 514,067 |
| Required debt payments for old Feoffees..... | 5,869,895 |
| School legal fees..... | 575,000 |
| Pre and post closing homeowners expense..... | 840 |
| Total expenses..... | <u>7,157,625</u> |
| Change in net position..... | <u>\$ 24,521,338</u> |

There was an increase of \$24.5 million in net position related with the Feoffees of the Grammar School in the Town of Ipswich Trust's activities during the interim period, August 9, 2012 through August 10, 2012. This was the result of the transfer of the Little Neck condominium and land along with the associated costs as defined in the court judgment creating the Trust and other related revenues, and the required payments related to the sale of the condominium units, debt payments made on behalf of the original trust (the Old Feoffees), required payments to the Ipswich Schools, and other necessary costs related to the creation of the Trust and the sale of the condominium units.

The interim period began upon the filing of the master deed on August 9, 2012, and ended with the last sale of the land parcels located on land known as Little Neck. The sale took place on August 10, 2012.

The trust administration order calls for the Feoffees to establish a permanent endowment to consist of all trust assets and funds after the payment of all properly incurred debts and expenses owed or accrued at the time of the sale of the lots. This endowment has been recorded as restricted net position. The final endowment may change since a portion of the final closing expenses have been placed in escrow and continue to be negotiated

between the buyers and Feoffees. The trust administration order also calls for future distributions to the Ipswich School Committee from the use and occupancy funds, which have also been recorded as restricted net position.

Requests for Information

This financial report is designed to provide a general overview of the Feoffees of the Grammar School in the Town of Ipswich Trust's finances during the interim period as defined by the courts. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Feoffees of the Grammar School in the Town of Ipswich Trust, Town Hall, 25 Green Street, Ipswich, Massachusetts, 01938.

Basic Financial Statements

FEOFFEES OF THE GRAMMAR SCHOOL IN THE TOWN OF IPSWICH TRUST

STATEMENT OF NET POSITION

AUGUST 10, 2012

ASSETS

Current:

| | |
|-------------------------------------|-----------------------|
| Cash and cash equivalents..... | \$ 15,457,194 |
| Balance of purchase price note..... | 177,766 |
| Mortgage notes..... | 2,963,097 |
| Use and occupancy loan..... | 163,963 |
| Accounts receivable..... | <u>99,118</u> |
| Total Current Assets | <u>18,861,138</u> |

Noncurrent:

| | |
|----------------------------------|----------------------|
| Mortgage notes..... | 5,420,569 |
| Use and occupancy loan..... | <u>322,825</u> |
| Total Noncurrent Assets..... | <u>5,743,394</u> |

TOTAL ASSETS..... \$ 24,604,532

LIABILITIES

Current:

| | |
|-----------------------|---------------|
| Accounts payable..... | \$ 26,378 |
| Unearned rent..... | <u>56,816</u> |

TOTAL LIABILITIES 83,194

NET POSITION

| | |
|---------------------------|----------------|
| Restricted for: | |
| Permanent endowment..... | 22,021,338 |
| Future distributions..... | 2,400,000 |
| Unrestricted..... | <u>100,000</u> |

TOTAL NET POSITION..... 24,521,338

TOTAL LIABILITIES AND NET POSITION..... \$ 24,604,532

See notes to basic financial statements.

FEOFFEES OF THE GRAMMAR SCHOOL IN THE TOWN OF IPSWICH TRUST

STATEMENT OF ACTIVITIES

FOR THE INTERIM PERIOD AUGUST 9 THROUGH AUGUST 10, 2012

REVENUES

| | |
|---|--------------------------|
| Court ordered sale of Little Neck property..... | \$ 29,150,000 |
| Use and occupancy payments..... | 2,400,000 |
| Other..... | <u>128,963</u> |
| TOTAL REVENUES..... | <u>31,678,963</u> |

EXPENSES

| | |
|---|-----------------------------|
| Closing Fees: | |
| Legal fees - closing..... | 119,545 |
| Recording fees..... | 6,950 |
| Surveyor..... | 49,228 |
| Title fees..... | 16,600 |
| Truth in lending fees..... | <u>5,500</u> |
| Total closing fees..... | 197,823 |
| Closing Credits: | |
| Erosion damage repair..... | 23,040 |
| Lessee credit..... | 223,027 |
| Wastewater system repair..... | 167,000 |
| Wastewater credit..... | <u>101,000</u> |
| Total closing credits..... | 514,067 |
| Required debt payments to old Feoffees..... | 5,869,895 |
| School legal fees..... | 575,000 |
| Pre and post closing homeowners expense..... | <u>840</u> |
| TOTAL EXPENSES..... | <u>7,157,625</u> |
| CHANGES IN NET POSITION..... | <u>24,521,338</u> |
| NET POSITION AT BEGINNING OF PERIOD..... | <u>-</u> |
| NET POSITION AT END OF PERIOD..... | <u>\$ 24,521,338</u> |

See notes to basic financial statements.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present the Feoffees of the Grammar School in the Town of Ipswich Trust, a public body and an agency of the Town of Ipswich, Massachusetts for the interim period which has been established to include August 9, 2012 through August 10, 2012. These statements are not intended to and do not present fairly the financial position of the Town of Ipswich, Massachusetts. These statements 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 accounting policies are described herein.

Nature of Operations

William Paine, a founding member of the Ipswich School Committee, bequeathed upon his death in 1660 a unique and valuable asset to be held in trust forever for the benefit of the Ipswich Public Schools. This asset was the Twenty-seven acres of land at Little Neck in the Town of Ipswich, overlooking the Ipswich River, Crane Beach, Plum Island, and the Atlantic Ocean Beyond. Paine specified that the land should “be and remain to the benefit of said school of Ipswich forever...said land not to be sold nor wasted.”

In December of 2006, the tenants of Little Neck sued the then trustees (the Old Feoffees) over the lease terms. In 2009, the Old Feoffees and the School Committee reached an agreement to sell the properties to the tenants upon the approval by the court to change the original terms of the trust.

Pursuant to the Court's equitable powers with respect to estates, charitable trusts, and trustees and to the Court's judgment dated December 23, 2011, the Court approved and ordered revisions and amplifications of the governance structure and administrative requirements applicable to the Trust created by William Paine with respect to the land known as Little Neck effective upon the filing of the Master Deed (August 9, 2012) submitting the land at Little Neck to the provisions of G.L. c. 183A (the “Effective Date”). The formal name for the new trust created by the Court is the Feoffees of the Grammar School in the Town of Ipswich Trust and the beneficiary of the Trust is the Ipswich Public Schools, for the purpose of supplemental enrichment programs and uses that provide education enhancement for Ipswich Public School students. The new Trust is a public body and an agency of the Town of Ipswich or its subdivisions and is subject to the standards and requirements set forth in the open meeting law, public records, bidding laws, and ethics and any subsequent amendments thereafter.

The terms of the Trust are established by the Court decision and the Trust Administration Order.

Governance

The Feoffees of the Grammar School in the Town of Ipswich Trust will be governed by a body of Feoffees as follows:

- Two Feoffees appointed by the Ipswich School Committee
- Two Feoffees appointed by the Ipswich Board of Selectmen
- One (Two after interim period) Feoffees appointed by the Ipswich Town Finance Committee, and:
- Two (One after interim period) of the current so-called Life Feoffees or their duly appointed successors

Feoffees serve without compensation, but reasonable and necessary trust-related expenses may be paid. Such trust-paid expenses must be reported in writing at least quarterly to the School Committee, the Board of Selectmen and the Finance Committee.

Responsibilities of the Feoffees

In addition to responsibilities and powers conferred upon trustees by the statutory and common law of the Commonwealth of Massachusetts, the Feoffees must carry out and comply with the provisions of the Court's judgment dated December 23, 2011. The Feoffees are authorized to take all actions as deemed necessary to appropriate in connection with the documentation, enforcement, refinancing, or collection of secured or unsecured loans provided to Little Neck residents pursuant to the Judgment. Feoffees have all powers over the Trust assets to achieve the proper investment, management and distribution of the Trust property.

During the Interim period (August 9 through August 10, 2012) all condominium units at Little Neck have been sold, rents collected, and monthly distributions of available net income from such rentals were made to the School Committee. The sale of Little Neck Condominium Units consisted of the sum of \$2.4 million in cash which was to be segregated by no later than August 10, 2012 from the other trust assets and allocated by the Feoffees as Use and Occupancy payments distributable to the School Committee. The Trust, after payment of all debts and expenses were required to establish a permanent endowment. The \$2.4 million in Use and Occupancy Funds are to be invested in appropriate fixed income investments. Within thirty days of the Effective Date (August 9, 2012), the Feoffees distributed one-third or \$800,000 of the Use and Occupancy Funds and any interest or income earned to the School Committee for expenditure use for the fiscal year ending June 30, 2013. On August 9, 2013 (the first anniversary of the Effective Date) the Feoffees are then required to distribute an amount equal to one-half of the remaining balance of the Use and Occupancy Funds for expenditure by the School Committee during the fiscal year ending June 30, 2014. Finally, on or before the second anniversary of the Effective Date, the Feoffees are required to distribute the balance of the Use and Occupancy Funds, including any interest or income to the School Committee for expenditure use for the fiscal year ending June 30, 2015.

A. Reporting Entity

The Feoffees of the Grammar School in the Town of Ipswich Trust, is a public body and an agency of the Town of Ipswich, Massachusetts and is subjected to the standards and requirements set forth in the open meeting law, public records, bidding laws, and ethics and any subsequent amendments thereafter, of the Town of Ipswich.

B. Measurement Focus and Basis of Accounting

The Feoffees of the Grammar School in the Town of Ipswich Trust's basic financial statements are presented using the flow of economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

C. Cash and Investments

For purposes of the basic financial statements, cash and cash equivalents include checking and savings accounts, time deposits, certificates of deposit, and all highly liquid investments with original maturities of three months or less. Investments are carried at fair value.

D. Notes, Mortgages, Loans and Accounts Receivable

The recognition of revenue related to accounts receivable reported are reported under the accrual basis of accounting.

The Feoffees of the Grammar School in the Town of Ipswich considers accounts receivable to be fully collectible, accordingly, no allowance for doubtful accounts is reported.

Amounts receivable consists of the balance of the purchase price note, mortgage notes and, use and occupancy loans receivable. The purchase price note has a 20 year amortization with a 5 year maturity at a 6% fixed interest rate. The Mortgage Notes are 6% interest only for 5 years, with a 20 year fixed, amortizing loan option at the end of the 5 year term. The Use and Occupancy loans are fully amortizing 5 year loans at a fixed rate of 4%. The Feoffees of the Grammar School in the Town of Ipswich Trust will receive monthly interest payments from mortgage borrowers, and annual principle and interest payments from Use and Occupancy Borrowers. The proceeds will be incorporated into the trust assets held to benefit the Ipswich Public Schools.

E. Charitable Gifts

The Feoffees may accept charitable gifts for the benefit of the Trust, which may be restricted or unassigned.

F. Net Position

“Restricted” 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.

The Feoffees have reported a restricted net position relative to a permanent endowment established in accordance with the court order and with the corresponding trust administration order and for court ordered future distributions to the Ipswich School Committee.

“Unassigned” classification represents amounts that have not been restricted to specific purposes.

G. Rental Income

The Condominium Association provided the Feoffees of the Grammar School in the Town of Ipswich Trust with a “Balance of Purchase Price Note”. This is the difference between the purchase price paid for 166 of the 167 condominiums sold and the price assigned to one unit which was not sold to the tenant at the closing. This is a 5 year term and will bear interest at 6% per annum, and will be paid in monthly payments of principle and interest based on a 20 year amortization schedule. The entire principle balance is to be due at the end of the 5 year term. Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned.

H. Use of Estimates

The preparation of 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 financial statements and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents

For purposes of reporting cash flows, the Feoffees considers checking and savings accounts, time deposits, certificates of deposit, and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Feoffees of the Grammar School in the Town of Ipswich Trust's deposits may not be returned to it. The Trust does not have a deposit policy for custodial credit risk; however the Trust must place funds in banking institutions and follow good stewardship practices as to coverage by depositor insurance and the rate of interest income generated.

For the interim period of August 9, 2012 through August 10, 2012, the carrying amount of deposits totaled \$15,457,194, and the bank balance totaled \$16,032,194. Of the bank balance, \$250,000 was covered by the Federal Depositors Insurance Company ("FDIC"), and \$15,782,194 was covered by the Depositor Insurance Fund ("DIF"), therefore the Trust did not have funds that were exposed to custodial credit risk.

Investments and Distribution of Earnings

With the assistance of qualified investment managers, portfolio or endowment advisors, or other professionals, and the approval of the School Committee, the Feoffees are in the process of establishing a written distribution policy that defines how the annual distributions are to be calculated and made. The Feoffees must hold investments in fixed income investments. 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 fiscal year that ends on June 30, 2016 and the day before the start of each subsequent fiscal year. The amount of these anticipated distributions must be reported to the School Committee by October 1st of each year.

Investment performance reports are required quarterly to ascertain current and long-term levels of achievement relative to the Investment policy and applicable benchmarks, with a copy to be provided to the School Committee, Board of Selectmen, and Finance Committee.

The Trust held no investments as of August 10, 2012.

NOTE 3 – MORTGAGE RECEIVABLES

For the interim period, August 9, 2012 through August 10, 2012, mortgage related receivables for the Feoffees of the Grammar School in the Town of Ipswich consist of the following:

| | <u>Gross Amount</u> |
|-------------------------------------|-------------------------|
| <u>Receivables:</u> | |
| Balance of purchase price note..... | \$ 177,766 |
| Mortgage notes..... | 8,383,666 |
| Use and occupancy loan..... | <u>486,788</u> |
| Total..... | <u>\$ 9,048,220</u> |

As of August 10, 2012, the balance of the purchase price note is the balance of the Condominium association's note to the Trust which represents the price assigned to one of the 167 condominium units not sold to the tenant at the closing. The mortgage notes represent approximately 55 mortgage notes held by the Trust, and the use and occupancy loans receivable balance is due from 27 of the cottage owners.

NOTE 4 – ACCOUNTS RECEIVABLE

As of August 10, 2012, accounts receivables for the Feoffees of the Grammar School in the Town of Ipswich consist of residual cash accounts held by the Old Feoffees, rent payments from August 1 through August 9 which were held in escrow pending the final calculation of amounts due, and amounts due from the Condominium Association related to wastewater payments.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

During the closing on the condominium units, \$167,000 in wastewater system repair claims were unresolved between the buyers and the sellers. The \$167,000 was placed in escrow until a resolution could be reached. As of May 31, 2013, the parties are continuing to work on a resolution. The \$167,000 has been reported as an expense by the Feoffees as of August 10, 2012.