

**FEOFFEES OF THE GRAMMAR SCHOOL
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Consolidated Statement of Financial Position as of June 30, 2010	2
Consolidated Statement of Activities for the year ended June 30, 2010	3
Consolidated Statement of Cash Flows for the year ended June 30, 2010	4
Notes to Consolidated Financial Statements	5 - 8

DAN CLASBY & COMPANY
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Feoffees of the Grammar School and Affiliate
P.O. Box 166
Ipswich, MA 01938

We have audited the accompanying consolidated statement of financial position of Feoffees of the Grammar School (a nonprofit organization) and Affiliate as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Feoffees of the Grammar School and Affiliate as of June 30, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



January 14, 2011

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Consolidated Statement of Financial Position

June 30, 2010

Assets

Current assets:

Cash and cash equivalents	\$ 25,354
Accounts receivable	<u>88,543</u>
Total current assets	<u>113,897</u>

Property, betterments and equipment:

Sewer betterments	6,697,342
Electric betterments	498,584
Furniture and fixtures	<u>1,893</u>
	7,197,819
Less accumulated amortization and depreciation	<u>960,109</u>

Net property, betterments and equipment	<u>6,237,710</u>
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Land and buildings, Note 1	<u>-</u>
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Total Assets	\$ <u>6,351,607</u>
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Liabilities and Net Assets

Current liabilities:

Current portion of long-term debt	\$ 204,000
Accounts payable	190,882
Accrued interest	28,097
Payments received in advance	<u>47,940</u>
Total current liabilities	470,919

Long-term debt, net of current portion	<u>5,574,878</u>
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Total liabilities	<u>6,045,797</u>
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Commitments and contingencies

Net assets:

Net assets - unrestricted	<u>305,810</u>
Total net assets	<u>305,810</u>

Total Liabilities and Net Assets	\$ <u>6,351,607</u>
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See accompanying notes and Independent Auditors' Report.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Consolidated Statement of Activities

For the year ended June 30, 2010

	<u>Unrestricted</u>
Support and Revenue:	
Tenant and leaseholder rents	\$ 1,023,431
Real estate tax collections - tenants	519,680
Wastewater revenues	116,987
Wastewater overhead and maintenance fees - tenants	64,440
Interest income and late charges	<u>4,942</u>
Total support and revenue	<u>1,729,480</u>
Expenses:	
Real estate taxes	537,736
Legal	232,209
Wastewater haulage fees	116,017
Repairs and upkeep	109,652
Management fees	44,006
Bank fees	26,250
Utilities	19,419
Accounting	12,000
Billing services	11,165
Inspections	10,080
Police details	5,688
Insurance	5,450
Office expense	4,181
Dock removal and storage	2,000
Other professional fees	1,000
State fees	750
Engineering - consulting	717
Beach sampling	<u>645</u>
Total expenses	<u>1,138,965</u>
Change in net assets before interest, amortization and depreciation and gift to Town of Ipswich Public Schools	<u>590,515</u>
Interest expense	459,442
Amortization and depreciation	<u>240,243</u>
	<u>699,685</u>
Change in net assets before gift to Town of Ipswich Public Schools	(109,170)
Gift to Town of Ipswich Public Schools	<u>-</u>
Change in net assets	(109,170)
Net assets, beginning of year	<u>414,980</u>
Net assets, end of year	\$ <u>305,810</u>

See accompanying notes and Independent Auditors' Report.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Consolidated Statement of Cash Flows

For the year ended June 30, 2010

Cash flows from operating activities:	
Change in net assets	\$(109,170)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Amortization and depreciation	240,243
Changes in operating assets and liabilities:	
Increase in accounts receivable	(6,492)
Increase in accounts payable	5,786
Decrease in accrued expenses	(5,958)
Decrease in deferred rent collections	(<u>11,507</u>)
Net cash provided by operating activities	<u>112,902</u>
Cash flows from investing activities	<u>-</u>
Cash flows from financing activities:	
Principal payments on long-term debt	(<u>187,788</u>)
Net cash used by financing activities	(<u>187,788</u>)
Net change in cash and cash equivalents	(74,866)
Cash and cash equivalents, beginning of year	<u>100,240</u>
Cash and cash equivalents, end of year	\$ <u>25,354</u>
Supplemental cash flow information:	
Interest paid	\$ <u>465,400</u>

See accompanying notes and Independent Auditors' Report.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2010

(1) Summary of significant accounting policies

(a) Nature of organization

Feoffees of the Grammar School (the “Trust”) was established by the Town of Ipswich (the “Town”) by a vote of Town Meeting on November 14, 1650. The vote established a four-member committee to hold land granted by the Town for the support of a “grammar school”. The Trust came into possession of the real property currently held in 1660 through the bequest of William Paine, an original member of the 1650 committee.

The real property consists of a parcel of land of approximately thirty-five (35) acres known as Little Neck in Ipswich, Massachusetts. On this land are situated one hundred sixty seven (167) cottages, of which one hundred forty three (143) are seasonal and twenty-four (24) are year round. The seasonal cottages may only be occupied between April 1 and December 31 each year. The Trust is assessed and pays to the Town the real estate taxes on the land and on such structures owned by the Trust (a community center and a wharf); in addition, they collect for the Town and remit to the Town the real estate taxes assessed on the cottages of the tenants who have not executed a long-term lease.

Because the Trust designates its net earnings to be for the benefit of the children of the Ipswich Public Schools, with no benefits accruing to its trustees, it has considered itself to be a tax-exempt organization. However until 1997 no federal or state tax returns were filed by the Trust, as it was the position of the Trust that it was a “quasi-public trust” and therefore was not technically required to file the tax returns.

The Trust is supported primarily through rent collections.

LNWS, LLC was established in 2006 to operate, maintain and improve a wastewater collection system for the Feoffees of the Grammar School.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of Feoffees of the Grammar School and its wholly owned affiliate LNWS, LLC. All material intercompany transactions and balances have been eliminated.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2010

(1) Continued

(c) Financial statement presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The one class of net assets applicable to the Trust is presented as follows:

Unrestricted Net Assets – Net assets that are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations.

The Organization prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

(d) Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include checking and savings accounts, time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

(e) Rents receivable from owners and allowance for doubtful accounts

Accounts receivable from owners are reported net of any allowance for doubtful accounts. The Trust provides for doubtful accounts based on experience and analysis of individual accounts. Since management considered all receivables to be collectible at June 30, 2010, no allowance was established at that time.

(f) Property, betterments and equipment

Sewer betterments, electrical betterments and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Betterments and equipment that extend the useful lives of assets are capitalized. Betterments are being amortized using the straight-line method over estimated useful lives ranging from 25 to 50 years. Equipment is being depreciated over estimated useful lives ranging from 5 to 10 years.

The land on which the Feoffees operate was acquired in 1660. The land has no determinable value and has not been recorded by the Trust. The community house used by the tenants of the Trust also has no determinable value and has not been recorded by the Trust.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2010

(1) Continued

(g) Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

(h) Fair value of financial instruments

The carrying value of cash in banks, accounts receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of these instruments. The amounts shown for notes payable approximate fair value since the interest rates are at current market rates.

(2) Long-term debt

Long-term debt as of June 30, 2010 consists of the following:

On June 7, 2005, the Trust entered into a construction/permanent term loan with the Ipswich Cooperative Bank (which has since merged with the Institution for Savings Bank) to provide financing for the construction of sewer lines and a centralized holding tank, pump-out facility and related infrastructure work. The maximum amount of the loan was set at \$6,483,000. \$2,000,000 was advanced on June 7, 2005 for work performed prior to the loan closing. During the construction period (nine months maximum) interest was charged at the Wall Street Journal Prime Rate plus 1% on a floating basis. On March 7, 2006, the construction loan converted into a permanent loan with a maturity date of March 7, 2026. The loan is a five (5) year adjustable rate loan with fixed interest based on the Federal Home Loan Bank of Boston Classic Advance Rate plus 2.75%, with a floor of 6.75%. The initial rate on this loan is 7.61%. The note is collateralized by all leases and rents and betterment fees on the Trust property. The current portion of this note at June 30, 2010 is \$204,000.

Maturities of long-term debt at June 30, 2010 is as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 204,000
2012	219,000
2013	235,000
2014	250,000
2015	266,000
Thereafter	<u>4,604,878</u>
Total	\$ <u>5,778,878</u>

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2010

(3) Contingencies and litigation

There is pending litigation in the Essex Superior Court regarding the alleged right of occupancy of certain cottage owners located on land owned by the Feoffees at Little Neck, Ipswich, Massachusetts, which litigation includes claims and counterclaims for money damages. That litigation has been stayed pending determination of an action filed by the Feoffees in the Essex Probate and Family Court in which the Feoffees seek approval of that court to compromise the Superior Court litigation and to deviate from the terms of the will of William Paine and sell the land they hold at Little Neck to the cottage owners as a part of the aforesaid compromise.

There is a bank account owned jointly by the Trust and an association known as the Little Neck Legal Action Committee. The account was established after June 30, 2007 under a Stipulation Agreement entered into by the parties on March 6, 2007. Under this agreement certain amounts paid by the tenants to the Trust for rent over and above their previously existing lease agreements are held in escrow until such time a final agreement is reached between the Trust and the tenants. There was \$49,669 held in escrow at June 30, 2010. Holders of this account are legal counsel for each of the parties. This account is not reflected on the financial statements.

(4) Subsequent event

The Trust executed a \$400,000 demand promissory note in favor of Eastern Bank on July 29, 2010. The note currently bears interest at an annual rate of 4.25%. The note is guaranteed personally by three of the Feoffees, Mr. Foley, Mr. Mulholland, and Mr. Whiston.