

**FEOFFEES OF THE GRAMMAR SCHOOL
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

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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, 2009, 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, 2009, 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 22, 2010

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Consolidated Statement of Financial Position

June 30, 2009

<u>Assets</u>	
Current assets:	
Cash	\$ 100,240
Accounts receivable	<u>82,051</u>
Total current assets	<u>182,291</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>719,866</u>
Net property, betterments and equipment	<u>6,477,953</u>
Land and buildings, Note 1	<u>-</u>
Total Assets	\$ <u>6,660,244</u>

<u>Liabilities and Net Assets</u>	
Current liabilities:	
Current portion of long-term debt	\$ 190,000
Accounts payable	185,096
Accrued interest	34,055
Payments received in advance	<u>59,447</u>
Total current liabilities	468,598
Long-term debt, net of current portion	<u>5,776,666</u>
Total liabilities	<u>6,245,264</u>
Commitments and contingencies	
Net assets:	
Net assets - unrestricted	<u>414,980</u>
Total net assets	<u>414,980</u>
Total Liabilities and Net Assets	\$ <u>6,660,244</u>

See notes to consolidated financial statements.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Consolidated Statement of Activities

For the year ended June 30, 2009

	<u>Unrestricted</u>
Support and Revenue:	
Tenant and leaseholder rents	\$ 1,006,660
Real estate tax collections - tenants	449,971
Wastewater revenues	95,109
Wastewater overhead and maintenance fees - tenants	64,800
Interest income and late charges	834
Total support and revenue	<u>1,617,374</u>
Expenses:	
Real estate taxes	469,165
Legal	191,505
Wastewater haulage fees	91,193
Management fees	74,575
Repairs and upkeep	27,310
Utilities	18,658
Other professional fees	10,669
Billing services	10,653
Accounting	10,000
Inspections	6,787
Engineering - consulting	6,490
Police details	5,983
Insurance	5,668
Office expense	4,303
Dock removal and storage	2,057
State fees	1,570
Beach sampling	450
Total expenses	<u>937,036</u>
Change in net assets before interest, amortization and depreciation and gift to Town of Ipswich Public Schools	<u>680,338</u>
Interest expense	468,562
Amortization and depreciation	<u>240,243</u>
	<u>708,805</u>
Change in net assets before gift to Town of Ipswich Public Schools	(28,467)
Gift to Town of Ipswich Public Schools	<u>-</u>
Change in net assets	(28,467)
Net assets, beginning of year	<u>443,447</u>
Net assets, end of year	\$ <u>414,980</u>

See notes to consolidated financial statements.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Consolidated Statement of Cash Flows

For the year ended June 30, 2009

Cash flows from operating activities:	
Change in net assets	\$(28,467)
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	(32,355)
Increase in accounts payable	38,575
Increase in accrued expenses	7,160
Decrease in deferred rent collections	(7,149)
Net cash provided by operating activities	<u>218,007</u>
Cash flows from investing activities	<u>-</u>
Cash flows from financing activities:	
Principal payments on long-term debt	(176,008)
Net cash used by financing activities	(176,008)
Net change in cash and cash equivalents	41,999
Cash and cash equivalents, beginning of year	<u>58,241</u>
Cash and cash equivalents, end of year	<u>\$ 100,240</u>
Supplemental cash flow information:	
Interest paid	<u>\$ 461,402</u>

See notes to consolidated financial statements.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2009

(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 November 30 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 and Affiliate.

(b) Basis of consolidation

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

(c) Financial statement presentation

The Trust has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Trust 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 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.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2009

(1) Continued

(d) Cash and equivalents

For purposes of the statement of cash flows, cash and 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, 2009, 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 operates was acquired in 1650. 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.

(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.

FEOFFEES OF THE GRAMMAR SCHOOL AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2009

(2) Long-term debt

Long-term debt as of June 30, 2009 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, 2009 is \$190,000.

Maturities of long-term debt at June 30, 2009 is as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 190,000
2011	204,000
2012	219,000
2013	235,000
2014	250,000
Thereafter	<u>4,868,666</u>
Total	\$ <u>5,966,666</u>

(3) Contingencies and litigation

There is pending litigation regarding alleged right of occupancy of certain tenants located at Little Neck in Ipswich, Massachusetts.

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 \$1,120,077 held in escrow at June 30, 2009. Trustees of this account are legal counsel for each of the parties. This account is not reflected on the financial statements.