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6/2007

FEOFFEES OF THE GRAMMAR SCHOOL

Financial Statements

June 30, 2006

FEOFFEES OF THE GRAMMAR SCHOOL

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DAN CLASBY & COMPANY
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers
Feoffees of the Grammar School
Ipswich, Massachusetts

We have audited the accompanying statement of financial position of the Feoffees of the Grammar School (a non-profit organization) as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Trust's managers. 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 of 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Feoffees of the Grammar School as of June 30, 2006, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



January 9, 2007

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FEOFFEES OF THE GRAMMAR SCHOOL

Statement of Financial Position

As of June 30, 2006

Assets

Current assets:	
Cash - operating	\$ 78,369
Cash - savings	191,974
Cash - reserved for sewer project	502,177
Accounts receivable	<u>72,434</u>
Total current assets	<u>844,954</u>
Property and betterments:	
Sewer betterments:	
Construction costs	5,608,268
Soft costs	<u>438,413</u>
	6,046,681
Electric betterments	<u>498,584</u>
	6,545,265
Less accumulated amortization	<u>-</u>
	6,545,265
Land and buildings, Note 1	<u>-</u>
Net property and betterments	<u>6,545,265</u>
Total Assets	<u>\$ 7,390,219</u>

Liabilities and Net Assets

Current liabilities:	
Note payable - current portion	\$ 146,292
Accounts payable	<u>8,214</u>
Total current liabilities	154,506
Long term debt, net of current portion	<u>6,301,784</u>
Total liabilities	<u>6,456,290</u>
Net assets:	
Unrestricted - undesignated	883,929
Unrestricted - board designated	<u>50,000</u>
Total net assets	<u>933,929</u>
Total Liabilities and Net Assets	<u>\$ 7,390,219</u>

See Independent Auditors' Report and notes to the financial statements.

FEOFFEES OF THE GRAMMAR SCHOOL

Statement of Activities

For the Year Ended June 30, 2006

	<u>Undesignated</u>	<u>Board Designated</u>	<u>Total</u>
Support and Revenue:			
Rents	\$ 847,000	\$ -	\$ 847,000
Buildings, home and land collections	458,746	-	458,746
Interest income	<u>19,284</u>	<u>-</u>	<u>19,284</u>
 Total support and revenue	 <u>1,325,030</u>	 <u>-</u>	 <u>1,325,030</u>
Expenses:			
Gift to Town of Ipswich Public Schools	588,000	-	588,000
Real estate taxes	468,628	-	468,628
Management fees	46,442	-	46,442
Wastewater removal - May storm	42,676	-	42,676
Repairs and upkeep	28,410	-	28,410
Land appraisal	9,285	-	9,285
Insurance	8,519	-	8,519
Utilities	6,984	-	6,984
Police details	6,075	-	6,075
Dock removal and storage	3,975	-	3,975
Legal	3,673	-	3,673
Accounting	3,000	-	3,000
Office expense	1,923	-	1,923
State fees	750	-	750
Beach sampling	666	-	666
Meetings	<u>358</u>	<u>-</u>	<u>358</u>
 Total expenses	 <u>1,219,364</u>	 <u>-</u>	 <u>1,219,364</u>
 Change in net assets	 105,666	 -	 105,666
Net assets, beginning of year	<u>778,263</u>	<u>50,000</u>	<u>828,263</u>
Net assets, end of year	\$ <u>883,929</u>	\$ <u>50,000</u>	\$ <u>933,929</u>

See Independent Auditors' Report and notes to the financial statements.

FEOFFEES OF THE GRAMMAR SCHOOL

Statement of Cash Flows

For the Year Ended June 30, 2006

Cash flows from operating activities:	
Change in net assets	\$ 105,666
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Increase in accounts receivable	(25,004)
Increase in accounts payable	<u>6,608</u>
Net cash provided by operating activities	<u>87,270</u>
Cash flows from investing activities:	
Betterments made	<u>(3,398,294)</u>
Net cash used in investing activities	<u>(3,398,294)</u>
Cash flows from financing activities:	
Proceeds from financing	6,483,000
Repayments on debt	<u>(2,999,562)</u>
Net cash provided by financing activities	<u>3,483,438</u>
Net change in cash	172,414
Cash, beginning of year	<u>600,106</u>
Cash, end of year	\$ <u>772,520</u>
Supplemental cash flow information:	
Interest paid	\$ <u>346,241</u>

See Independent Auditors' Report and notes to the financial statements.

FEOFFEES OF THE GRAMMAR SCHOOL

Notes to Financial Statements

(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 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.

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.

(b) *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.

(c) *Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

FEOFFEES OF THE GRAMMAR SCHOOL

Notes to Financial Statements

(1) Continued

(d) Property and betterments

Sewer and electrical improvements are recorded at cost. Maintenance and repairs are charged to expense as incurred. Betterments that extend the useful lives of assets are capitalized. The improvements will be amortized using the straight-line method over estimated useful lives of 20 years. Amortization of the improvements will begin in fiscal year June 2007.

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.

(2) Long-term debt

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

On June 7, 2005 the Trust entered into a construction/permanent term loan with the Ipswich Cooperative 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, 2006 is \$146,292.

Upon the conversion of the loan from a construction loan to a permanent loan on March 7, 2006 the Bank advanced \$892,560 to the Trust in order to finance remaining construction costs. The Board of Managers has designated funds set aside in a separate checking account as an allocated reserve for the sole purpose of construction cost remittances. The balance in this account at June 30, 2006 is \$502,177.

Maturities of long-term debt at June 30, 2006 is as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 146,292
2008	157,822
2009	170,260
2010	183,679
2011	198,154
Thereafter	<u>5,591,869</u>
Total	<u>\$ 6,448,076</u>

FEOFFEES OF THE GRAMMAR SCHOOL

Notes to Financial Statements

(3) Note payable - related party

The Trust was indebted to the Chairman of its Board of Managers in the amount of \$964,638 at June 30, 2005. The Chairman established a line of credit of \$1,000,000 with the same financial institution that is referred to in Note 2 above, as the bank could not lend the Feoffees more than \$2,000,000 pending the receipt of an order from the Essex Probate Court authorizing those loans. The note carried interest at 6.2%, which was the identical rate charged by the bank to the Chairman. This note was paid off during September 2005 with proceeds from the Trust's construction loan.

(4) Basis of accounting

Under Chapter 12, Section 8F of the Massachusetts General Laws, organizations which file annual reports with the Division of Public Charities and have gross support and revenue in excess of \$100,000 for a year must prepare their financial statements in accordance with generally accepted accounting principles (GAAP) and present them on the accrual basis of accounting, effective for all current filings. In accordance with the mandate the Trust changed to the accrual basis of accounting from the cash basis of accounting previously reported. Generally accepted accounting principles also required the Trust to discontinue carrying the land at its 1997 assessed value of \$15,419,900. The effect of these changes was to reduce net assets by \$15,374,076 as of July 1, 2005.