

COUNTY OF DUKES COUNTY, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2004

COUNTY OF DUKES COUNTY, MASSACHUSETTS
REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis	2
Basic Financial Statements	9
Statement of Net Assets	11
Statement of Activities	12
Governmental funds – balance sheet	14
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets	15
Governmental funds – statement of revenues, expenditures and changes in fund balances	16
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	17
Proprietary funds – statement of net assets	18
Proprietary funds – statement of revenues, expenses and changes in fund net assets	19
Proprietary funds – statement of cash flows.....	20
Fiduciary funds – statement of fiduciary net assets.....	21
Notes to basic financial statement	22
Required Supplementary Information.....	39
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual	40
Notes to required supplementary information.....	41



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Independent Auditors' Report

To the Honorable County Commissioners
County of Dukes County, Massachusetts

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 County of Dukes County, Massachusetts, as of and for the fiscal year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Dukes County, Massachusetts' management. 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 *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 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 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 County of Dukes County, Massachusetts, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 13, the County has implemented several Governmental Accounting Standards Board Statements, which changed the beginning fund equity position of several funds and established net assets for governmental activities and business-type activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2005, on our consideration of the County of Dukes County, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

January 20, 2005, except for Note 13 which is dated July 18, 2005

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the County of Dukes County, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. This is the first year our financial statements have been prepared under the Governmental Accounting Standards Board Statement Number 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principals (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- The assets of the County of Dukes County exceeded its liabilities at the close of the most recent fiscal year by \$23.9 million (net assets).
- Of this amount, 3% or \$625 thousand (unrestricted net assets) may be used to meet the government's on-going obligations to citizens and creditors.
- At the close of the current fiscal year, the County's general fund reported an ending fund balance of \$227 thousand, a decrease of \$47 thousand in comparison with the prior year. Total fund balance represents 15% of total general fund expenditures.
- The County's total long-term debt decreased by \$100 thousand, during the current fiscal year, due to scheduled loan repayments on outstanding airport general obligation bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Dukes County's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required 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 assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 fiscal 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 county commissioners, parking clerk, courthouse, treasurer, registry of deeds, civil defense, health council, health and human services, engineering, employee benefits, veterans agent, testing laboratory, recreation, rodent control, house of corrections/sheriff and other. The business-type activities include the activities of the airport 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 expendable resources*, as well as on *balances of expendable resources* available at the end of the fiscal 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 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 County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The County maintains 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 County uses enterprise funds to account for its airport activities.

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 statement because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

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

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Total assets exceeded total liabilities by \$23.9 million at the close of Fiscal 2004.

Total net assets of \$23.2 million (97%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings, machinery and equipment, vehicles and infrastructure), less any related debt used to acquire those assets that are still outstanding. The County 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 assets \$56 thousand (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$625 million (3%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities, except for the governmental activities unrestricted net assets.

The governmental and business-type activities of the County are presented below:

The County's assets exceeded liabilities for governmental and business-type activities by \$1.1 million and \$22.8 million, respectively, at the close of fiscal 2004.

	Governmental Activities	Business-type Activities
Assets:		
Current assets.....	\$ 867,908	\$ 1,205,425
Capital assets not being depreciated.....	873,874	1,994,359
Capital assets, net of accumulated depreciation.....	249,320	20,905,493
Total assets.....	1,991,102	24,105,277
Liabilities:		
Current liabilities (excluding debt).....	392,787	261,473
Noncurrent liabilities (excluding debt).....	539,342	198,920
Current debt.....	-	100,000
Noncurrent debt.....	-	700,000
Total liabilities.....	932,129	1,260,393
Net Assets:		
Capital assets net of related debt.....	1,123,194	22,099,852
Restricted.....	56,124	-
Unrestricted.....	(120,345)	745,032
Total net assets.....	\$ 1,058,973	\$ 22,844,884

	Governmental Activities	Business-type Activities
Program revenues:		
Charges for services.....	\$ 1,046,037	\$ 3,769,002
Operating grants and contributions.....	1,932,400	463,891
Capital grants and contributions.....	-	268,240
General Revenues:		
Town assessments.....	714,586	-
County deeds excise tax.....	979,048	-
Unrestricted investment income.....	6,617	6,351
Miscellaneous.....	146,986	-
Total revenues.....	4,825,674	4,507,484
Expenses:		
County commissioners.....	142,575	-
Parking clerk.....	331,845	-
Courthouse.....	78,663	-
Treasurer.....	188,085	-
Registry of deeds.....	327,440	-
Civil defense.....	8,512	-
Housing authority.....	3,545	-
Health and human services.....	71,256	-
Engineering.....	76,409	-
Employee benefits.....	218,018	-
Veterans agent.....	37,375	-
Testing laboratory.....	76,453	-
Recreation.....	108,858	-
Rodent control.....	57,087	-
House of corrections/sheriff.....	3,170,795	-
Other expenditures.....	611,115	-
Airport.....	-	5,391,450
Total expenses.....	5,508,031	5,391,450
Increase (decrease) in net assets before transfers....	(682,357)	(883,966)
Transfers.....	155,193	(155,193)
Change in net assets.....	\$ (527,164)	\$ (1,039,159)

The governmental expenses totaled \$5.5 million of which \$3.0 million was directly supported by program revenues consisting of charges for services and operating grants and contributions. General revenues totaled \$1.8 million, primarily coming from town assessments and Registry of Deeds excise taxes.

The business-type expenses totaled \$5.4 million of which \$4.5 million was directly supported by program revenues consisting of charges for services and capital grants.

The governmental net assets decreased by (\$527) thousand during the current fiscal year. This was primarily due to the operating results of the Sheriff's fund (net of current year capital asset additions and depreciation expense) and court judgments (see note 13).

The business-type net assets decreased by (\$1.0) million during the current fiscal year. This was primarily due to the excess of depreciation expense over current year capital asset additions and court judgments (see note 13).

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *expendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$492 thousand, of which \$227 thousand is for the general fund, \$149 thousand is for the sheriff fund, \$116 thousand is for the other special revenue fund and \$100 is for the capital projects fund. Cumulatively there was a decrease of (\$457) thousand in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$137 thousand, while total fund balance was \$227 thousand. As a measurer of the general fund's liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 9% of total general fund expenditures, while total fund balance represents 15% of that same amount. Fund balance designated for subsequent year's expenditures totaled \$90 thousand.

The County's general fund decreased by (\$47) thousand in Fiscal 2004 which is consistent with projected operating results.

The deeds excise fund is used to account for deeds excise taxes collected by the Registry of Deeds. Annual collections are allocated to the General fund and Sheriff fund in accordance with Chapter 64D, Section 11 of the Massachusetts General Laws. Accordingly, the deeds excise fund had zero fund balance at fiscal year end.

The sheriff fund is used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for the sheriff's department. The fund is in a surplus position of \$149 thousand.

The other special revenue fund is used to account for all other proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes. The fund is in a surplus position of \$116 thousand.

The county capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities of the County. The fund is in a surplus position of \$100.

General Fund Budgetary Highlights

The \$95 thousand increase between the original budget and the final amended budget was primarily due to appropriations for legal fees.

Capital Asset and Debt Administration

Capital Assets. In conjunction with the annual operating budget, the County annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$24.0 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, machinery and equipment, vehicles and infrastructure. The total decrease in the County's investment in capital assets for the current year was (\$417) thousand.

Debt Administration. The airport enterprise fund has outstanding long-term debt of \$800,000 that is fully supported by the rates and does not rely on a general fund subsidy.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the County of Dukes County'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 County Treasurer, 9 Airport Road, RR1 Box 863, Vineyard Haven, Massachusetts, 02568.

Basic Financial Statements

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STATEMENT OF NET ASSETS

JUNE 30, 2004

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 823,525	\$ 992,866	\$ 1,816,391
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	44,383	117,197	161,580
Other.....	-	86,482	86,482
Inventory.....	-	8,880	8,880
NONCURRENT:			
Capital assets not being depreciated.....	873,874	1,994,359	2,868,233
Capital assets, net of accumulated depreciation.....	249,320	20,905,493	21,154,813
TOTAL ASSETS.....	1,991,102	24,105,277	26,096,379
LIABILITIES			
CURRENT:			
Warrants payable.....	201,794	183,430	385,224
Accrued interest.....	-	17,864	17,864
Other liabilities.....	173,993	41,579	215,572
Compensated absences.....	17,000	18,600	35,600
Bonds and notes payable.....	-	100,000	100,000
NONCURRENT:			
Compensated absences.....	96,500	18,900	115,400
Court judgments.....	442,842	180,020	622,862
Bonds and notes payable.....	-	700,000	700,000
TOTAL LIABILITIES.....	932,129	1,260,393	2,192,522
NET ASSETS			
Invested in capital assets, net of related debt.....	1,123,194	22,099,852	23,223,046
Restricted for:			
Other purposes.....	56,124	-	56,124
Unrestricted.....	(120,345)	745,032	624,687
TOTAL NET ASSETS.....	\$ 1,058,973	\$ 22,844,884	\$ 23,903,857

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
County commissioners.....	\$ 142,575	\$ -	\$ -	\$ -	\$ (142,575)
Parking clerk.....	331,845	346,908	-	-	15,063
Courthouse.....	78,663	49,208	-	-	(29,455)
Treasurer.....	188,085	-	-	-	(188,085)
Registry of deeds.....	327,440	392,727	-	-	65,287
Civil defense.....	8,512	-	-	-	(8,512)
Health council.....	3,545	-	-	-	(3,545)
Health and human services.....	71,256	-	2,000	-	(69,256)
Engineering.....	76,409	-	-	-	(76,409)
Employee benefits.....	218,018	-	-	-	(218,018)
Veterans agent.....	37,375	-	-	-	(37,375)
Testing laboratory.....	76,453	28,624	-	-	(47,829)
Recreation.....	108,858	54,860	-	-	(53,998)
Rodent control.....	57,087	6,075	-	-	(51,012)
House of corrections/sheriff.....	3,170,795	167,635	1,930,400	-	(1,072,760)
Other expenditures.....	611,115	-	-	-	(611,115)
Total Governmental Activities..	5,508,031	1,046,037	1,932,400	-	(2,529,594)
Business-Type Activities:					
Airport.....	5,391,450	3,769,002	463,891	268,240	(890,317)
Total Primary Government.....	\$ 10,899,481	\$ 4,815,039	\$ 2,396,291	\$ 268,240	\$ (3,419,911)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ <u>(2,529,594)</u>	\$ <u>(890,317)</u>	\$ <u>(3,419,911)</u>
<i>General revenues:</i>			
Town assessments.....	714,586	-	714,586
County deeds excise tax.....	979,048	-	979,048
Unrestricted investment income.....	6,617	6,351	12,968
Miscellaneous.....	146,986	-	146,986
<i>Transfers, net</i>	<u>155,193</u>	<u>(155,193)</u>	<u>-</u>
Total general revenues and transfers.....	<u>2,002,430</u>	<u>(148,842)</u>	<u>1,853,588</u>
Change in net assets.....	(527,164)	(1,039,159)	(1,566,323)
<i>Net Assets:</i>			
Beginning of year.....	<u>1,586,137</u>	<u>23,884,043</u>	<u>25,470,180</u>
End of year.....	\$ <u><u>1,058,973</u></u>	\$ <u><u>22,844,884</u></u>	\$ <u><u>23,903,857</u></u>

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2004

	General	Sheriff	Other Special Revenue	County Capital Projects	Total Governmental Funds
ASSETS					
Cash and short-term investments.....	\$ 250,334	\$ 412,403	\$ 160,688	\$ 100	\$ 823,525
Receivables, net of uncollectibles:					
Intergovernmental.....	44,383	-	-	-	44,383
TOTAL ASSETS.....	\$ 294,717	\$ 412,403	\$ 160,688	\$ 100	\$ 867,908
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 51,424	\$ 105,600	\$ 44,770	\$ -	\$ 201,794
Other liabilities.....	16,406	157,587	-	-	173,993
TOTAL LIABILITIES.....	67,830	263,187	44,770	-	375,787
FUND BALANCES:					
Unreserved:					
Designated for subsequent year's expenditures..	90,000	-	-	-	90,000
Undesignated, reported in:					
General fund.....	136,887	-	-	-	136,887
Special revenue funds.....	-	149,216	115,918	-	265,134
Capital projects funds.....	-	-	-	100	100
TOTAL FUND BALANCES.....	226,887	149,216	115,918	100	492,121
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 294,717	\$ 412,403	\$ 160,688	\$ 100	\$ 867,908

See notes to basic financial statements.

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

JUNE 30, 2004

Total governmental fund balances.....	\$ 492,121
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	1,123,194
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Court judgments.....	(442,842)
Compensated absences.....	<u>(113,500)</u>
Net effect of reporting long-term liabilities.....	<u>(556,342)</u>
Net assets of governmental activities.....	\$ <u>1,058,973</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

	General	Deeds Excise	Sheriff	Other Special Revenue	County Capital Projects	Total Governmental Funds
REVENUES:						
Town assessments.....	\$ 714,586	\$ -	\$ -	\$ -	\$ -	\$ 714,586
State grants.....	-	-	1,930,401	1,999	-	1,932,400
Courthouse rental.....	49,208	-	-	-	-	49,208
Registry of deeds.....	392,727	979,049	-	-	-	1,371,776
Dog license revenue.....	-	-	-	18,057	-	18,057
Beach fees.....	54,400	-	-	-	-	54,400
Parking fees.....	49,195	-	-	297,713	-	346,908
Communication center.....	77,737	-	-	-	-	77,737
Laboratory fees.....	28,624	-	-	-	-	28,624
Investment income.....	4,609	-	1,723	-	-	6,332
Miscellaneous.....	129,275	-	89,898	6,473	-	225,646
TOTAL REVENUES.....	1,500,361	979,049	2,022,022	324,242	-	4,825,674
EXPENDITURES:						
Current:						
County commissioners.....	137,861	-	-	-	-	137,861
Parking clerk.....	31,634	-	-	300,211	-	331,845
Courthouse.....	78,663	-	-	-	-	78,663
Treasurer.....	188,085	-	-	-	-	188,085
Registry of deeds.....	326,362	-	-	-	-	326,362
Civil defense.....	8,512	-	-	-	-	8,512
Health council.....	3,545	-	-	-	-	3,545
Health and human services.....	67,017	-	-	3,244	-	70,261
Engineering.....	74,778	-	-	-	-	74,778
Employee benefits.....	217,934	-	-	84	-	218,018
Veterans agent.....	35,376	-	-	1,999	-	37,375
Testing laboratory.....	68,620	-	-	-	-	68,620
Recreation.....	102,537	-	-	-	-	102,537
Rodent control.....	52,148	-	-	-	-	52,148
House of corrections/sheriff.....	-	-	3,570,674	-	-	3,570,674
Other expenditures.....	144,809	-	5,710	17,754	-	168,273
TOTAL EXPENDITURES.....	1,537,881	-	3,576,384	323,292	-	5,437,557
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(37,520)	979,049	(1,554,362)	950	-	(611,883)
OTHER FINANCING SOURCES (USES):						
Transfers in (out) - corrections maintenance of effort.....	(443,052)	-	443,052	-	-	-
Transfers in (out) - retirees' health insurance.....	79,167	-	-	-	-	79,167
Transfers in (out) - cost allocations.....	115,692	(1,526)	(32,214)	(5,926)	-	76,026
Transfers in (out) - deeds excise.....	254,351	-	668,238	-	-	922,589
Transfers in (out) - deeds excise.....	-	(922,589)	-	-	-	(922,589)
Transfers in (out) - other.....	-	-	16,000	-	-	16,000
Transfers in (out) - other.....	(16,000)	-	-	-	-	(16,000)
TOTAL OTHER FINANCING SOURCES (USES)....	(9,842)	(924,115)	1,095,076	(5,926)	-	155,193
NET CHANGE IN FUND BALANCES.....	(47,362)	54,934	(459,286)	(4,976)	-	(456,690)
FUND BALANCES AT BEGINNING OF YEAR, as restated...	274,249	(54,934)	608,502	120,894	100	948,811
FUND BALANCES AT END OF YEAR.....	\$ 226,887	\$ -	\$ 149,216	\$ 115,918	\$ 100	\$ 492,121

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**

FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds.....	\$ (456,690)
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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.

Capital outlay.....	437,813
Depreciation expense.....	<u>(55,945)</u>

Net effect of reporting capital assets.....	381,868
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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.

Net change in compensated absences accrual.....	(9,500)
Net change in court judgments.....	<u>(442,842)</u>

Net effect of recording long-term liabilities and amortizing deferred losses....	<u>(452,342)</u>
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Change in net assets of governmental activities.....	\$ <u>(527,164)</u>
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See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2004

	Business-type Activities - Airport Enterprise Fund
ASSETS	
CURRENT:	
Cash and short-term investments.....	\$ 992,866
Receivables, net of allowance for uncollectibles:	
Intergovernmental.....	117,197
Other.....	86,482
Inventory.....	8,880
	<u>1,205,425</u>
Total current assets.....	<u>1,205,425</u>
NONCURRENT:	
Capital assets not being depreciated.....	1,994,359
Capital assets, net of accumulated depreciation.....	20,905,493
	<u>22,899,852</u>
Total noncurrent assets.....	<u>22,899,852</u>
TOTAL ASSETS.....	<u>24,105,277</u>
LIABILITIES	
CURRENT:	
Warrants payable.....	183,430
Accrued interest.....	17,864
Other liabilities.....	41,579
Compensated absences.....	18,600
Bonds and notes payable.....	100,000
	<u>361,473</u>
Total current liabilities.....	<u>361,473</u>
NONCURRENT:	
Compensated absences.....	18,900
Court judgments.....	180,020
Bonds and notes payable.....	700,000
	<u>898,920</u>
Total noncurrent liabilities.....	<u>898,920</u>
TOTAL LIABILITIES.....	<u>1,260,393</u>
NET ASSETS	
Invested in capital assets, net of related debt.....	22,099,852
Unrestricted.....	745,032
	<u>22,844,884</u>
TOTAL NET ASSETS.....	<u>\$ 22,844,884</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Airport Enterprise Fund
<u>OPERATING REVENUES:</u>	
Charges for services.....	\$ 692,629
Intergovernmental.....	463,891
Fuel.....	2,411,982
Business park.....	633,001
Wastewater revenue.....	31,390
TOTAL OPERATING REVENUES	4,232,893
<u>OPERATING EXPENSES:</u>	
Cost of services and administration.....	2,006,602
Fuel.....	1,484,797
Control tower.....	282,129
Water facilities.....	89,606
Wastewater facilities.....	148,003
Transportation security.....	113,905
Depreciation.....	1,227,236
TOTAL OPERATING EXPENSES	5,352,278
OPERATING INCOME (LOSS).....	(1,119,385)
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Investment income.....	6,351
Interest expense.....	(39,172)
Intergovernmental.....	268,240
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	235,419
INCOME (LOSS) BEFORE TRANSFERS.....	(883,966)
<u>TRANSFERS:</u>	
Transfers in (out) - retirees' health insurance.....	(79,167)
Transfers in (out) - cost allocations.....	(76,026)
TOTAL TRANSFERS.....	(155,193)
CHANGE IN NET ASSETS.....	(1,039,159)
NET ASSETS AT BEGINNING OF YEAR, as restated.....	23,884,043
NET ASSETS AT END OF YEAR.....	\$ 22,844,884

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Airport Enterprise Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from customers and users.....	\$ 3,988,181
Receipts from other governments.....	437,582
Payments to vendors.....	(2,865,313)
Payments to employees.....	(1,192,285)
NET CASH FROM OPERATING ACTIVITIES.....	368,165
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>	
Transfers out.....	(155,193)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>	
Acquisition and construction of capital assets.....	(427,885)
Principal payments on bonds and notes.....	(100,000)
Capital grants.....	1,053,223
Interest expense.....	(41,326)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	484,012
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Investment income.....	6,351
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	703,335
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	289,531
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 992,866
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>	
Operating income (loss).....	\$ (1,119,385)
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation.....	1,227,236
Changes in assets and liabilities:	
Other.....	172,523
Intergovernmental.....	(26,309)
Inventory.....	46,656
Warrants payable.....	(122,849)
Other liabilities.....	(4,227)
Accrued compensated absences.....	14,500
Court judgments.....	180,020
Total adjustments.....	1,487,550
NET CASH FROM OPERATING ACTIVITIES.....	\$ 368,165

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	<u>Agency Funds</u>
ASSETS	
CURRENT:	
Cash and short-term investments.....	\$ <u>45,605</u>
LIABILITIES	
Other liabilities.....	\$ <u><u>45,605</u></u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the County of Dukes County, Massachusetts (the County) 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 County accounting policies are described herein.

A. Reporting Entity

The County adheres to the County form of government prescribed by Massachusetts General Laws (MGL). It is governed by seven elected Commissioners and an Advisory Board. The Advisory Board is comprised of a representative from each town within the County. As required by GAAP, these basic financial statements present the government and its component units, entities for which the County is considered to be financially accountable.

The Martha's Vineyard Airport adheres to the form of government prescribed by MGL. The Airport is governed by seven appointed Commissioners. The Commissioners are currently comprised of six residents of Martha's Vineyard and one County Commissioner.

For financial reporting purposes, the County has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The County 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 County are such that exclusion would cause the basic financial statements to be misleading or incomplete. It has been determined that there are no component units that meet the requirements for inclusion in the County's financial statements.

The financial position and results of operations of the Dukes County Retirement System (the System) and the Martha's Vineyard Land Bank (MVLB) are not included in these basic financial statements, as they are not considered to be a part of the reporting entity. The financial statements for the System can be obtained by contacting the System at 9 Airport Road, RR1 Box 863, Vineyard Haven, Massachusetts, 02568. The financial statements for the MVLB can be obtained by contacting the MVLB at 167 Main Street, Edgartown, Massachusetts, 02568.

B. Government-Wide and Fund Financial Statements***Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government 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.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, 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. 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 airport enterprise fund. 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.

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 deeds excise fund is used to account for deeds excise taxes collected by the Registry of Deeds. Annual collections are allocated to the General fund and Sheriff fund in accordance with Chapter 64D, Section 11 of the Massachusetts General Laws.

The *sheriff fund* is used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for the sheriff's department.

The *other special revenue fund* is used to account for all other proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes.

The *county capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities of the County.

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 fund is reported:

The *airport enterprise fund* is used to account for the general operations, construction, and capital acquisitions of the Airport.

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 type is reported:

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash

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.

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 and fiduciary 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.

Other

Other receivables consist of airport rental receivables which are recorded in the fiscal year that the rental payments are due. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

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.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories of the Governmental Funds 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 Airport Enterprise Fund are carried at weighted average cost.

G. Capital Assets*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, construction in progress, land improvements, buildings, machinery and equipment, vehicles and infrastructure (e.g., roads, sidewalks, 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, if actual historical cost is not available. 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 \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	2-20
Buildings.....	20-50
Machinery and equipment.....	5-20
Vehicles.....	5
Infrastructure.....	20-50

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 fiscal year of the purchase.

H. 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 assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets 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.

I. 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 assets. 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.

J. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Other purposes” represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2005 operating budget.

K. 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 assets. Material bond premiums, discounts and issue costs are deferred and amortized over the life of the bonds using the effective interest method.

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 governmental expenditures.

L. Investment Income

Investment income from Special Revenue Funds and Capital Project Funds is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from proprietary funds is retained by the proprietary funds.

M. 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.

N. Post Retirement Benefits*Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, the County provides health insurance coverage for retired employees and their survivors in accordance with MGL, Chapter 32B, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 90% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2004, this expense/expenditure totaled approximately \$206,000. There were approximately 32 participants eligible to receive benefits at June 30, 2004.

O. Individual Fund Deficits

Several individual fund deficits exist within the Special Revenue and Airport Capital Project funds at June 30, 2004. These deficits will be funded through available fund balance and grant proceeds during fiscal year 2005.

P. 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 fiscal year. Actual results could vary from estimates that were used.

Q. 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 combined balance sheet as "Cash and Short-term Investments". 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). In addition, there are various restrictions limiting the amount and length of deposits and investments.

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.

Short-term investments and investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the County or its agent in the County's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the County's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the County's name.

At fiscal year-end, the carrying amount of deposits totaled \$1,650,704 and the bank balance totaled \$1,688,833. Of the bank balance, \$300,000 was covered by Federal Depository Insurance, \$55,706 was covered by the Depositors Insurance Fund, and \$1,333,127 was collateralized.

The following details the carrying amount of cash and short-term investments as reported in the basic financial statements at June 30, 2004:

	<u>Cash and Short-term Investments</u>
<i>Cash and short-term investment balances at June 30, 2004:</i>	
Checking, savings and NOW accounts.....	\$ 1,463,158
Certificates of deposit.....	155,706
Money market deposits.....	<u>31,840</u>
Total carrying amount of cash.....	<u>1,650,704</u>
<u>Investments not subject to categorization:</u>	
MMDT.....	<u>211,292</u>
<i>Total cash and short-term investments as reported in the basic financial statements</i>	<u>\$ 1,861,996</u>

NOTE - 3 RECEIVABLES

At June 30, 2004, receivables for the individual major governmental funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Intergovernmental.....	\$ <u>44,383</u>	\$ <u>-</u>	\$ <u>44,383</u>

At June 30, 2004, receivables for the airport enterprise fund consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Intergovernmental.....	\$ 117,197	\$ -	\$ 117,197
Other.....	<u>131,197</u>	<u>(44,715)</u>	<u>86,482</u>
	<u>\$ 248,394</u>	<u>\$ (44,715)</u>	<u>\$ 203,679</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 480,172	\$ -	\$ -	\$ 480,172
Construction in progress.....	21,319	372,383	-	393,702
Total capital assets not being depreciated....	501,491	372,383	-	873,874
<u>Capital assets being depreciated:</u>				
Buildings.....	719,591	42,769	-	762,360
Machinery and equipment.....	236,693	22,661	-	259,354
Vehicles.....	159,379	-	-	159,379
Infrastructure.....	21,850	-	-	21,850
Total capital assets being depreciated.....	1,137,513	65,430	-	1,202,943
<u>Less accumulated depreciation for:</u>				
Buildings.....	(626,647)	(5,022)	-	(631,669)
Machinery and equipment.....	(167,394)	(26,277)	-	(193,671)
Vehicles.....	(102,340)	(23,781)	-	(126,121)
Infrastructure.....	(1,297)	(865)	-	(2,162)
Total accumulated depreciation.....	(897,678)	(55,945)	-	(953,623)
Total capital assets being depreciated, net.....	239,835	9,485	-	249,320
Total governmental activities capital assets, net.....	\$ 741,326	\$ 381,868	\$ -	\$ 1,123,194

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,410,887	\$ -	\$ -	\$ 1,410,887
Construction in progress.....	155,587	427,885	-	583,472
Total capital assets not being depreciated....	1,566,474	427,885	-	1,994,359
<u>Capital assets being depreciated:</u>				
Land improvements.....	4,231,598	-	-	4,231,598
Buildings.....	15,996,777	-	-	15,996,777
Machinery and equipment.....	3,231,100	-	-	3,231,100
Infrastructure.....	6,054,901	-	-	6,054,901
Total capital assets being depreciated.....	29,514,376	-	-	29,514,376
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,022,708)	(222,830)	-	(1,245,538)
Buildings.....	(2,652,997)	(442,336)	-	(3,095,333)
Machinery and equipment.....	(1,359,899)	(305,326)	-	(1,665,225)
Infrastructure.....	(2,346,043)	(256,744)	-	(2,602,787)
Total accumulated depreciation.....	(7,381,647)	(1,227,236)	-	(8,608,883)
Total capital assets being depreciated, net.....	22,132,729	(1,227,236)	-	20,905,493
Total business-type activities capital assets, net.....	\$ 23,699,203	\$ (799,351)	\$ -	\$ 22,899,852

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

Governmental Activities:

County commissioners.....	\$ 4,714
Registry of deeds.....	1,078
Health and human services.....	995
Engineering.....	1,631
Testing laboratory.....	7,833
Recreation.....	6,321
Rodent control.....	4,939
House of corrections/sheriff.....	28,434
Total depreciation expense - governmental activities.....	\$ 55,945

Business-Type Activities:

Airport.....	\$ 1,227,236
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NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2004, are summarized as follows:

Transfers Out:	Transfers In:		
	General Fund	Sheriff	Total
General Fund.....	\$ -	\$ 459,052	\$ 459,052
Deeds Excise.....	255,877	668,238	924,115
Sheriff.....	32,214	-	32,214
Other Special Revenue.....	5,926	-	5,926
Airport Enterprise Fund.....	155,193	-	155,193
	<u>\$ 449,210</u>	<u>\$ 1,127,290</u>	<u>\$ 1,576,500</u>

NOTE 6 - SHORT-TERM FINANCING

The County is authorized to borrow on a temporary basis 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 of the County and carry maturity dates that are limited by statute. Interest expenditures for short-term borrowings are accounted for in the general fund and airport enterprise fund.

The County did not issue any short-term debt during the fiscal year and there was no short-term debt outstanding at June 30, 2004.

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 County's outstanding indebtedness at June 30, 2004, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Enterprise Funds

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>
Airport terminal.....	5.00	\$ <u>900,000</u>	\$ <u>-</u>	\$ <u>100,000</u>	\$ <u>800,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005.....	\$ 100,000	\$ 36,601	\$ 136,601
2006.....	100,000	31,850	131,850
2007.....	100,000	27,100	127,100
2008.....	100,000	22,350	122,350
2009.....	50,000	18,788	68,788
2010.....	50,000	16,413	66,413
2011.....	50,000	14,038	64,038
2012.....	50,000	11,625	61,625
2013.....	50,000	9,125	59,125
2014.....	50,000	6,563	56,563
2015.....	50,000	3,963	53,963
2016.....	50,000	1,325	51,325
Totals.....	\$ <u>800,000</u>	\$ <u>199,741</u>	\$ <u>999,741</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2004, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Governmental Activities:					
Compensated absences.....	\$ 104,000	\$ 9,500	\$ -	\$ 113,500	\$ 17,000
Court judgments.....	-	442,842	-	442,842	-
Total.....	\$ <u>104,000</u>	\$ <u>452,342</u>	\$ <u>-</u>	\$ <u>556,342</u>	\$ <u>17,000</u>
Business-type Activities:					
Long-term bonds and notes.....	\$ 900,000	\$ -	\$ 100,000	\$ 800,000	\$ 100,000
Compensated absences.....	23,000	14,500	-	37,500	18,600
Court judgments.....	-	180,020	-	180,020	-
Total.....	\$ <u>923,000</u>	\$ <u>194,520</u>	\$ <u>100,000</u>	\$ <u>1,017,520</u>	\$ <u>118,600</u>

NOTE 8 - RISK FINANCING*Insurance*

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance.

Health benefits

The County participates in a health insurance risk pool trust administered by Cape Cod Municipal Health Group (the Group), a non-profit organization incorporated in July of 1987 to obtain health insurance for member governments at costs eligible to larger groups. The Group offers a variety of premium based plans to its members with each participating governmental unit being charged a premium for coverage based on rates established by the Group. The County is obligated to pay the Group its required premiums and, in the event the Group is terminated, its prorata share of a deficit, should one exist.

Workers' Compensation

The County participates in a premium-based workers' compensation policy for all employees.

NOTE 9 - PENSION PLAN

Plan Description - The County contributes to the County of Dukes County Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the County of Dukes County Retirement Board. Substantially all employees of the County are members of the System. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the 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 funded by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the County of Dukes County Contributory Retirement Board and are funded by the System. The System issues a publicly available 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 9 Airport Road, RR1 Box 863, Vineyard Haven, Massachusetts, 02568.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The County is required to pay into the System its share of the systemwide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the County are governed by Chapter 32 of the MGL. The County's contributions to the System for the fiscal years ended June 30, 2004, 2003 and 2002 were \$404,239, \$378,054 and \$272,630, respectively, which equaled its required contribution for each fiscal year.

NOTE 10 - COST ALLOCATION PLAN AND AIRPORT SUPPORT

At an Advisory Board Meeting on June 6, 2001, the airport agreed to establish a reserve fund in the amount of \$226,277 to reimburse the County for the cost allocations for fiscal years 1998 through 2000 and the airport support deficits from fiscal years 1995 through 1997. On June 21, 2001, the Airport Commission voted to pay the

cost allocations in the amount of \$117,703. The remaining balance in the reserve fund for cost allocations totals \$108,574, which equals the balance of the airport support deficits. The transfer of these funds may be voted by the Airport Commissioners.

NOTE 11 - COMMITMENTS

The Airport has entered into, or is planning to enter into, several contracts for the purpose of making improvements/upgrades to the Airport Terminal and Business Park. These projects are being funded by federal and state grants and the Airport Fund.

NOTE 12 - CONTINGENCIES

The County 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, 2004, 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 it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. 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, 2004, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2004.

NOTE 13 - SUBSEQUENT EVENT

On July 18, 2005, the Dukes County Superior Court entered a judgment against the County of Dukes County and the Martha's Vineyard Airport Commission (the Commission) for breach of contract related to the non-payment of wages to the Airport Manager and Assistant Airport Manager. The judgment called for payment of approximately \$180,000 in back wages, \$83,000 in legal fees and an award of \$360,000 in treble damages. Accordingly, a liability has been recorded for the County's share of \$443,000 in the governmental funds and the Commission's share of \$180,000 in the airport enterprise fund.

NOTE 14 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2004, the following GASB pronouncements were implemented:

- Statement #34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- Statement #37, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments; Omnibus*
- Statement #38, *Certain Financial Statement Note Disclosures*

The pronouncements identified on the previous page are all related to the new financial reporting requirements as defined in Statement #34. Fiscal year 2004 is the required implementation date. The most significant changes required by the new financial reporting standards are as follows:

- Management's discussion and analysis.
- Basic financial statements, which include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting.
 - Fund financial statements, consisting of a series of statements that focus on major governmental and enterprise funds.
 - Schedules to reconcile the fund financial statements to the government-wide financial statements.
 - Notes to the basic financial statements.

Statement #39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement #14. Management has determined that no additional component units were required to be presented in the basic financial statements.

As a result of implementing these pronouncements, the following restatements have been made to beginning fund balances and net assets:

Description	6/30/2003 Previously Reported Balances	Reclass to Other Major and Non-Major Funds	Reclass to Enterprise Fund	Adjustments	6/30/2003 Restated Balances
Airport Fund.....	\$ 778,381	\$ -	\$ (778,381)	\$ -	\$ -
County Special Revenue....	674,462	(674,462)	-	-	-
Airport Debt Service.....	209,188	-	(209,188)	-	-
Deeds Excise.....	-	(54,934)	-	-	(54,934)
Sheriff.....	-	608,502	-	-	608,502
Other Special Revenue.....	-	120,894	-	-	120,894
Airport Enterprise Fund.....	-	-	987,569	22,896,474	23,884,043
Total.....	\$ 1,662,031	\$ -	\$ -	\$ 22,896,474	\$ 24,558,505

Other Future GASB Pronouncements:

The GASB issued Statement #40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3, which is required to be implemented Fiscal 2005. This pronouncement will only require changes to the note disclosure.

The GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is required to be implemented in Fiscal 2006. Management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in Fiscal 2009. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented in Fiscal 2006. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section. The presentation of a statistical section is not required by this pronouncement. This pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in Fiscal 2010. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance to
	Original Budget	Final Budget	Budgetary Amounts	Final Budget
REVENUES:				
Town assessments.....	\$ 711,945	\$ 714,586	\$ 714,586	\$ -
Courthouse rental.....	48,000	48,000	49,208	1,208
Registry of deeds.....	280,000	280,000	392,727	112,727
Beach fees.....	52,500	52,500	54,400	1,900
Parking fees.....	45,000	45,000	49,195	4,195
Communication center.....	114,000	114,000	77,737	(36,263)
Laboratory fees.....	40,000	40,000	28,624	(11,376)
Investment income.....	-	-	4,609	4,609
Miscellaneous.....	115,000	115,000	129,275	14,275
TOTAL REVENUES.....	1,406,445	1,409,086	1,500,361	91,275
EXPENDITURES:				
Current:				
County commissioners.....	160,326	139,438	137,861	1,577
Parking clerk.....	30,474	31,578	31,634	(56)
Courthouse.....	60,466	76,834	78,663	(1,829)
Treasurer.....	188,538	188,538	188,085	453
Registry of deeds.....	331,014	331,014	326,362	4,652
Civil defense.....	14,593	14,593	8,512	6,081
Health council.....	6,000	6,000	3,545	2,455
Health and human services.....	68,426	68,426	67,017	1,409
Engineering.....	75,250	75,250	74,778	472
Employee benefits.....	203,620	208,545	217,934	(9,389)
Veterans agent.....	34,302	35,434	35,376	58
Testing laboratory.....	60,860	70,579	68,620	1,959
Recreation.....	115,039	105,320	102,537	2,783
Rodent control.....	56,445	54,650	52,148	2,502
Other expenditures.....	53,814	147,667	134,293	13,374
TOTAL EXPENDITURES.....	1,459,167	1,553,866	1,527,365	26,501
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(52,722)	(144,780)	(27,004)	117,776
OTHER FINANCING SOURCES (USES):				
Transfers in (out) - corrections maintenance of effort.....	(443,052)	(443,052)	(443,052)	-
Transfers in (out) - retirees' health insurance.....	100,000	100,000	79,167	(20,833)
Transfers in (out) - cost allocations.....	100,000	100,000	115,692	15,692
Transfers in - deeds excise.....	220,703	220,703	254,351	33,648
Transfers out - other.....	(16,000)	(16,000)	(16,000)	-
TOTAL OTHER FINANCING SOURCES (USES).....	(38,349)	(38,349)	(9,842)	28,507
NET CHANGE IN FUND BALANCE.....	(91,071)	(183,129)	(36,846)	146,283
BUDGETARY FUND BALANCE, Beginning of year.....	274,249	274,249	274,249	-
BUDGETARY FUND BALANCE, End of year.....	\$ 183,178	\$ 91,120	\$ 237,403	\$ 146,283

See notes to required supplementary information.

NOTE A - BUDGETARY BASIS OF ACCOUNTING**1. Budgetary Information**

MGL requires the County to adopt a balanced budget that is approved by the Commissioners and Advisory Board. The Commissioners present an annual budget to the Advisory Board, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Advisory Board, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between departments subsequent to the approval of the annual budget require majority Advisory Board approval via a supplemental appropriation or Advisory Board order.

The majority of the County's appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the County is statutorily required to pay debt service, 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 the Commissioners.

The County adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2004 approved budget for the General Fund authorized approximately \$1.8 million, in appropriations. During fiscal year 2004, the Advisory Board also approved supplemental appropriations totaling approximately \$95 thousand.

The County Manager has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the County's accounting system.

2. Budgetary - GAAP Reconciliation

Accounting principles followed for purposes of preparing the basic financial statements on a budgetary basis differ from those used to present the basic financial statements in conformity with GAAP. A reconciliation of budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2004, is presented below.

Net change in fund balance - budgetary basis.....	\$	(36,846)
<u>Basis of accounting differences:</u>		
Net change in recording accrued liabilities.....		<u>(10,516)</u>
Net change in fund balance - GAAP basis.....	\$	<u><u>(47,362)</u></u>

3. Appropriation Deficits

For the fiscal year ended June 30, 2004, actual expenditures exceeded appropriations for the parking clerk, courthouse and employee benefits. These over-expenditures will be funded by available fund balance.