

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Basic Financial Statements and
Management's Discussion and Analysis
With Independent Auditors' Report
For the Year Ending June 30, 2011

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Basic Financial Statements and Management's Discussion and Analysis For the Year Ending June 30, 2011

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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 year ended June 30, 2011, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2012, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of funding progress, and schedule of employer contributions on pages iii through iv and 28 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Dukes County, Massachusetts' financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Malloy, Lynch, Bienvenue, CP

July 24, 2012

Management's Discussion and Analysis

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2011

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, 2011. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

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 principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments of 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 \$30.7 million (net assets). Of this amount, \$(711,113) (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The total cost of all County services for fiscal year 2011 was \$9.9 million.
- At the close of the current fiscal year, the County's general fund reported an ending fund balance of \$445,986, an increase of \$67,908 from the prior year. Total fund balance represents 22.0% of total general fund expenditures.
- The County's total long-term debt decreased by \$50,000 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's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the County as a whole. The fund financial statements focus on the individual components of the County government, reporting the county's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison, and enhance the County's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's 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 of the County is improving or deteriorating.

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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 of the County include county commissioners, parking clerk, courthouse/administrative building, treasurer, registry of deeds, civil defense, health council, health and human services, retiree benefits, veterans agent, recreation, rodent control, charter study commission, interest, house of corrections/sheriff, and other expenditures. 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. The County, like other state and local governments, uses fund accounting 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 financial statements focus on *near-term inflows and outflows 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 funds with similar 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 programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the 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.

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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 \$30.7 million at the close of fiscal year 2011. These net assets are further classified in the accompanying pages between governmental activities and business type activities

Net assets of \$31.0 million (101%) reflect the County's 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 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 County's total net assets, \$413,880 (1.3%), represents resources that are subject to restrictions placed on how they may be used. The remaining balance of unrestricted net assets, \$(711,113) 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 two out of three categories of net assets for the government as a whole, as well as for its governmental and business-type activities.

Governmental Activities

As illustrated below, the County's assets exceeded liabilities for governmental activities by \$1.2 million at the close of fiscal year 2011.

	FY 2011	FY 2010	Percent Change
Assets:			
Current assets	\$ 922,272	\$ 969,433	-5%
Capital assets not being depreciated	480,172	480,172	0%
Capital assets, net of accumulated depreciation	336,466	306,698	10%
Total assets	<u>\$ 1,738,910</u>	<u>\$ 1,756,303</u>	
Liabilities:			
Current liabilities	257,451	305,696	-16%
Noncurrent liabilities	313,898	232,324	35%
Total liabilities	<u>571,349</u>	<u>538,020</u>	
Net Assets:			
Invested in capital assets, net of related debt	798,620	762,870	5%
Restricted	413,880	326,659	27%
Unrestricted	(44,939)	128,754	-135%
Total net assets	<u>\$ 1,167,561</u>	<u>\$ 1,218,283</u>	

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2011

	FY 2011	FY 2010	Percent Change
Program revenues:			
Charges for services	\$ 1,008,710	\$ 781,198	29%
Operating grants and contributions	420,023	2,429,712	-83%
General revenues:			
Town assessments	828,701	828,990	0%
County deeds excise tax	196,245	476,826	-59%
Unrestricted investment income	4,592	6,608	-31%
Other revenues	504,061	574,692	-12%
Total revenues	2,962,332	5,098,026	
Expenses:			
County commissioners	173,500	163,559	6%
Parking clerk	407,248	339,008	20%
Courthouse/administrative building	104,736	3,952	2550%
Treasurer	244,910	251,462	-3%
Registry of deeds	426,061	387,323	10%
Civil defense	32,653	20,230	61%
Health and human services	515,056	360,885	43%
Retiree benefits	165,837	205,413	-19%
Veterans agent	67,631	69,866	-3%
Recreation	1,424	1,271	12%
Integrated pest management	78,176	67,087	17%
Animal shelter	115,111		
Law enforcement	511,961	2,644,397	-81%
Post-employment benefits	115,980	63,449	83%
Other expenditures	223,758	224,639	0%
Total expenses	3,184,042	4,802,541	
Increase (decrease) in net assets before trans	(221,710)	295,485	-175%
Transfers and special items	170,988	(324,539)	-153%
Change in net assets	\$ (50,722)	\$ (29,054)	75%

The governmental expenses totaled \$3.2 million, of which \$1.4 million was directly supported by program revenues consisting of charges for services and operating grants and contributions. General revenues totaled \$1.5 million, consisting primarily of town assessments and county deeds excise taxes.

The governmental net assets decreased by \$50,722 during the current fiscal year. This was primarily due to the accrual of other post-employment benefits and to current year depreciation expense.

Business-Type Activities

The County's assets exceeded its liabilities for business-type activities by \$29.6 million at the close of fiscal year 2011, illustrated as follows:

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	FY 2011	FY 2010	Percent Change
Assets:			
Current assets	\$ 2,032,792	\$ 3,159,359	-36%
Capital assets not being depreciated	11,651,831	1,666,026	599%
Capital assets, net of accumulated depreciation	18,833,039	19,837,292	-5%
Total assets	<u>\$ 32,517,662</u>	<u>\$ 24,662,677</u>	32%
Liabilities:			
Current liabilities (excluding debt)	2,071,612	2,275,942	-9%
Noncurrent liabilities (excluding debt)	627,354	377,235	66%
Current debt	50,000	50,000	0%
Noncurrent debt	200,000	250,000	-20%
Total liabilities	<u>2,948,966</u>	<u>2,953,177</u>	0%
Net Assets:			
Invested in capital assets, net of related debt	30,234,870	21,203,318	43%
Unrestricted	(666,174)	506,183	-232%
Total net assets	<u>\$ 29,568,696</u>	<u>\$ 21,709,501</u>	36%
Program revenues:			
Charges for services	\$ 5,706,403	\$ 5,233,005	9%
Operating grants and contributions	120,805	118,106	2%
Capital grants and contributions	8,947,867	3,712,870	141%
General revenues:			
Unrestricted investment income	9,882	14,289	-31%
Total revenues	<u>14,784,957</u>	<u>9,078,270</u>	63%
Expenses:			
Airport	6,754,774	11,524,944	-41%
Total expenses	<u>6,754,774</u>	<u>11,524,944</u>	-41%
Increase (decrease) in net assets before transfers	8,030,183	(2,446,674)	-428%
Transfers and special items	(170,988)	(212,981)	-20%
Change in net assets	<u>\$ 7,859,195</u>	<u>\$ (2,659,655)</u>	-395%

The business-type expenses totaled \$6.8 million, of which \$15 million was directly supported by program revenues consisting of charges for services, operating grants, capital grants, and contributions.

The business-type net assets increased by \$7,859,195 during the current fiscal year. This was due primarily to airport improvement grants received.

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 the County's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing financing requirements. Fund balance for governmental funds is reported in a classification hierarchy which is based upon the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications are non-spendable, restricted, committed, assigned and unassigned fund balance.

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In particular, *unassigned fund balance* represents the residual fund balance which has not been restricted, committed, or assigned to a purpose within that fund. The general fund is the only fund which should report a positive unassigned fund balance amount. Any negative unassigned fund balance represents expenditures incurred for specific purposes which exceeded the amounts restricted, committed, or assigned for that purpose.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$718,245, an increase of approximately \$18,000 from the prior year. The governmental funds' combined ending fund balances were reported in the following classifications: restricted fund balance of \$413,880, and unassigned fund balance of \$304,365.

The general fund is the County's chief operating fund. At the end of the current fiscal year, the general fund reported aggregate fund balance of \$0.45 million, an increase of \$67,908 from the previous year. Unassigned fund balance of \$0.45 million represents 100% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Total fund balance represents approximately 22% and 25.8% of total general fund expenditures and revenues, respectively, while unassigned general fund balance represents 22% and 25.8% of the same amounts.

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 to the sheriff fund in accordance with Chapter 64D, Section 11 of Massachusetts General Law. Accordingly, the deeds excise fund effectively had zero fund balance at fiscal year-end.

General Fund Budgetary Highlights

The difference between the original expenditure budget of \$1.918 million and the final amended expenditure budget of \$1.922 million can be briefly summarized as follows:

- ◆ Reallocation of departmental budgets and an increase in overall appropriations to provide for employee longevity bonuses.

Capital Asset and Debt Administration

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.

Capital assets - The County's investment in capital assets for governmental activities as of June 30, 2011 amounts to \$0.8 million, which is net of accumulated depreciation of \$0.92 million. The investment in capital assets includes land; buildings; improvements; machinery and equipment.

The County's investment in capital assets for business-type activities as of June 30, 2011, amounts to \$30.50 million, which is net of accumulated depreciation of \$16.7 million. The investment in capital assets includes land; machinery and equipment and infrastructure.

Debt Administration. The airport enterprise fund has outstanding long-term debt of \$250,000 that is fully supported by airport fees and does not rely on a general fund subsidy.

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

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2011

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 information should be addressed to the County Treasurer, 9 Airport Road, Suite 2, Vineyard Haven, Massachusetts, 02568.

Basic Financial Statements

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Statement of Net Assets

June 30, 2011

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 573,112	\$ 1,421,630	\$ 1,994,742
Intergovernmental receivables	937	103,634	104,571
Departmental and other receivables	211,355	314,120	525,475
Due from other funds	136,868		136,868
Inventories		193,408	193,408
Total current assets	922,272	2,032,792	2,955,064
Non-current assets:			
Capital assets, non-depreciable	480,172	11,651,831	12,132,003
Capital assets, net of accumulated depreciation	336,466	18,833,039	19,169,505
Total non-current assets	816,638	30,484,870	31,301,508
Total assets	<u>\$ 1,738,910</u>	<u>\$ 32,517,662</u>	<u>\$ 34,256,572</u>
<u>LIABILITIES</u>			
Current liabilities:			
Warrants payable	\$ 86,274	922,664	\$ 1,008,938
Due to other funds		186,954	186,954
Accrued interest payable		5,890	5,890
Customer deposits payable	2,500	96,050	98,550
Retainage payable		780,513	780,513
Other liabilities	115,253	2,041	117,294
Compensated absences	45,000	77,500	122,500
Bonds, notes and loans payable	8,424	50,000	58,424
Total current liabilities	257,451	2,121,612	2,379,063
Non-current liabilities:			
Compensated absences	22,000	40,000	62,000
Bonds, notes and loans payable	9,594	200,000	209,594
Other post-employment benefits	282,304	587,354	869,658
Total non-current liabilities	313,898	827,354	1,141,252
Total liabilities	571,349	2,948,966	3,520,315
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	798,620	30,234,870	31,033,490
Restricted	413,880		413,880
Unrestricted	(44,939)	(666,174)	(711,113)
Total net assets	1,167,561	29,568,696	30,736,257
Total liabilities and net assets	<u>\$ 1,738,910</u>	<u>\$ 32,517,662</u>	<u>\$ 34,256,572</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government							
Governmental Activities							
County Commissioners	\$ 173,500	\$	\$	\$	\$ (173,500)	\$	\$ (173,500)
Parking Clerk	407,248	402,509			(4,739)		(4,739)
Courthouse/Administrative Building	104,736	97,179			(7,557)		(7,557)
Treasurer	244,910	915			(243,995)		(243,995)
Registry of Deeds	426,061	232,862	72,794		(120,405)		(120,405)
Civil Defense	32,653	5,000	20,999		(6,654)		(6,654)
Health and human services	515,056	21,211	296,230		(197,615)		(197,615)
Retiree Benefits	165,837				(165,837)		(165,837)
Veterans Agent	67,631	2,829			(64,802)		(64,802)
Recreation	1,424	45,000			43,576		43,576
Integrated pest management	78,176	26,588			(51,588)		(51,588)
Animal shelter	115,111	161,413			46,302		46,302
Law enforcement	511,961	10,134			(501,827)		(501,827)
Post-employment benefits	115,980				(115,980)		(115,980)
Other expenditures	223,758	3,070	30,000		(190,688)		(190,688)
Total governmental activities/ primary government	3,184,042	1,008,710	420,023		(1,755,309)		(1,755,309)
Business-type activities:							
Airport	6,754,774	5,706,403	120,805	8,947,867		8,020,301	8,020,301
Total business-type activities	6,754,774	5,706,403	120,805	8,947,867		8,020,301	8,020,301
Total primary government	\$ 9,938,816	\$6,715,113	\$ 540,828	\$ 8,947,867	(1,755,309)	8,020,301	6,264,992
General revenues:							
Town assessments					828,701		828,701
County deeds excise tax					196,245		196,245
Unrestricted investment earnings					4,592	9,882	14,474
Miscellaneous					504,061		504,061
Transfers, net					170,988	(170,988)	
Total general revenues, special items, and transfers					1,704,587	(161,106)	1,543,481
Change in net assets					(50,722)	7,859,195	7,808,473
Net assets - beginning of year					1,218,283	21,709,501	22,927,783
Net assets - end of year					\$ 1,167,561	\$ 29,568,696	\$ 30,736,257

The accompanying notes are an integral part of these financial statements.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2011

	<u>General Fund</u>	<u>Parking Clerk</u>	<u>Law Enforcement</u>	<u>Other Special Revenue</u>	<u>County Capital Projects</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 373,347	\$ 38,405	\$ 5,196	\$ 156,164	\$	\$ 573,112
Receivables, net	210,596					210,596
Due from other funds			32,176	182,643		214,819
Intergovernmental				937		937
Prepaid expenses	759					759
Total assets	<u>\$ 584,702</u>	<u>\$ 38,405</u>	<u>\$ 37,372</u>	<u>\$ 339,744</u>	<u>\$</u>	<u>\$ 1,000,223</u>
<u>LIABILITIES</u>						
Warrants payable	\$ 14,111	\$ 23,315	\$ 11,654	\$ 37,194	\$	\$ 86,274
Due to other funds	9,150	13,829			54,972	77,951
Payable to other governments	40					40
Liabilities due depositors	202		2,298			2,500
Other liabilities	115,213					115,213
Total liabilities	138,716	37,144	13,952	37,194	54,972	281,978
<u>FUND BALANCES</u>						
Unreserved						
Restricted		1,261	23,420	363,367	25,832	413,880
Unassigned	445,986			(60,817)	(80,804)	304,365
Total fund balances	445,986	1,261	23,420	302,550	(54,972)	718,245
Total liabilities and fund balances	<u>\$ 584,702</u>	<u>\$ 38,405</u>	<u>\$ 37,372</u>	<u>\$ 339,744</u>	<u>\$</u>	<u>\$ 1,000,223</u>
Amounts reported for governmental activities in the statement of net assets are different because:						
Total fund balances of governmental funds						\$ 718,245
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds. The cost of the assets is \$1,735,223 and the accumulated depreciation is \$918,585						816,638
Long-term liabilities are not due and payable in the current period and are not included in funds included in funds.						(367,322)
Net assets of governmental activities						<u>\$ 1,167,561</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF DUKES COUNTY, MASSACHUSETTS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Parking Clerk</u>	<u>Law Enforcement</u>	<u>Other Special Revenue</u>	<u>County Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:						
Town assessments	\$ 828,701	\$	\$	\$	\$	\$ 828,701
State grants	10,000			473,743		483,743
Courthouse rental	81,061					81,061
Registry fees	232,862					232,862
Deeds excise				196,245		196,245
Dog license revenue				12,761		12,761
Beach fees	45,000					45,000
Parking fees	69,337	333,172				402,509
Communications center fees	146,120					146,120
Investment income	3,911	178		503		4,592
Departmental and other	311,692		10,134	199,701	14,711	536,238
Total revenues	1,728,684	333,350	10,134	882,953	14,711	2,969,832
Expenditures:						
Current:						
County commissioners	168,835					168,835
Parking clerk	75,267	333,163				408,430
Courthouse/Administrative building	110,043				32,950	142,993
Treasurer	240,774					240,774
Registry of deeds	379,618			68,974		448,592
Civil defense/emergency management	9,312			30,965		40,277
Health Council	300					300
Culture and recreation				37,314		37,314
Health and human services	149,497			371,264		520,761
Retiree benefits	165,837					165,837
Veterans agent	65,958			2,573		68,531
Integrated pest management	74,045			831		74,876
Animal shelter				112,911		112,911
Law enforcement	501,683		9,559			511,242
Other expenditures	87,072		2,035	10,728	80,804	180,639
Total expenditures	2,028,241	333,163	11,594	635,560	113,754	3,122,312
Revenues over (under) expenditures	(299,557)	187	(1,460)	247,393	(99,043)	(152,480)
OTHER FINANCING SOURCES (USES)						
Transfers in	367,465					367,465
Transfers out				(196,477)		(196,477)
Total other financing sources and uses	367,465			(196,477)		170,988
Revenues and other financing sources over (under) expenditures and other financing uses	67,908	187	(1,460)	50,916	(99,043)	18,508
Fund balance (deficit), beginning of year	378,078	1,074	24,880	251,634	44,071	699,737
Fund balance (deficit), end of year	\$ 445,986	\$ 1,261	\$ 23,420	\$ 302,550	\$ (54,972)	\$ 718,245

The accompanying notes are an integral part of these financial statements.

COUNTY OF DUKES COUNTY, MASSACHUSETTS
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds:	\$	18,508
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlays during the fiscal year	71,826
Depreciation expense recorded for the fiscal year	(42,058)

Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Changes in liabilities are as follows:

Other post-employment benefits	(115,980)
Capital leases	5,982
Compensated absences	<u>11,000</u>

Change in net assets of governmental activities	\$	<u>(50,722)</u>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Statement of Net Assets - Proprietary Funds

June 30, 2011

	Business-Type Activities - Airport Enterprise Fund
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 1,421,630
Intergovernmental receivables	103,634
Departmental and other receivables	314,120
Inventories	<u>193,408</u>
Total current assets	2,032,792
Non-current assets:	
Capital assets, non-depreciable	11,651,831
Capital assets, net of accumulated depreciation	<u>18,833,039</u>
Total non-current assets	30,484,870
Total assets	<u><u>\$ 32,517,662</u></u>
<u>LIABILITIES</u>	
Current Liabilities:	
Warrants payable	\$ 922,664
Due to other funds	186,954
Accrued interest payable	5,890
Customer deposits payable	96,050
Retainage payable	780,513
Other liabilities	2,041
Compensated absences	77,500
Bonds, notes and loans payable	<u>50,000</u>
Total current liabilities	2,121,612
Non-current liabilities:	
Compensated absences	40,000
Bonds, notes and loans payable	200,000
Other post-employment benefits	<u>587,354</u>
Total non-current liabilities	827,354
Total liabilities	2,948,966
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	30,234,870
Unrestricted	<u>(666,174)</u>
Total net assets	29,568,696
Total liabilities and net assets	<u><u>\$ 32,517,662</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF DUKES COUNTY, MASSACHUSETTS
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds
For the Year Ended June 30, 2011

	Business-Type Activities - Airport Enterprise Fund
Operating revenues	
Charges for services	\$ 1,302,846
Intergovernmental	120,805
Fuel	3,196,251
Business park	1,125,212
Wastewater revenue	<u>82,094</u>
Total operating revenues	5,827,208
Operating expenses	
Cost of services and administration	2,710,985
Fuel	2,093,563
Wastewater facilities	201,750
Transportation security	195,481
Post-employment benefits	240,119
Depreciation	<u>1,299,926</u>
Total operating expenses	<u>6,741,824</u>
Operating income (loss)	(914,616)
Non operating revenues (expenses)	
Investment income	9,883
Interest expense	(12,950)
Intergovernmental	<u>8,947,866</u>
Total non-operating revenue (expenses)	<u>8,944,799</u>
Income (loss) before contributions and transfers	8,030,183
Transfers out	<u>(170,988)</u>
Change in net assets	7,859,195
Net assets at beginning of year	<u>21,709,501</u>
Net assets at end of year	<u><u>\$ 29,568,696</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2011

	Business-Type Activities - Airport Enterprise Fund
Cash flows from operating activities	
Receipts from customers and users	\$ 5,399,829
Receipts from other governments	46,077
Payments to vendors	(4,589,534)
Payments to employees	<u>(1,061,611)</u>
Net cash provided by operating activities	(205,239)
Cash flows from noncapital financing activities	
Net transfers	<u>15,966</u>
Net cash used for noncapital financing activities	15,966
Cash flows from capital and related financing activities	
Capital grants	8,947,866
Acquisition and construction of capital assets	(10,281,478)
Principal payments on bonds and notes	(50,000)
Interest expense	<u>(14,038)</u>
Net cash provided by capital and related financing activities	(1,397,650)
Cash flows from investing activities	
Investment income	<u>9,883</u>
Net cash provided by investing activities	<u>20,130</u>
Net change in cash and cash equivalents	(1,577,040)
Cash and cash equivalents at beginning of year	<u>2,998,670</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,421,630</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ (914,616)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,299,926
Changes in assets and liabilities:	
Intergovernmental receivables	(74,728)
Departmental and other receivables	(306,574)
Inventories	(61,625)
Accounts payable and other current liabilities	(406,241)
Other post-employment benefits	240,119
Accrued compensated absences	<u>18,500</u>
Total adjustments	<u>709,377</u>
Net cash provided by operating activities	<u><u>\$ (205,239)</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Statement of Net Assets - Fiduciary Funds

June 30, 2011

	<u>ASSETS</u>	<u>Agency Accounts</u>
Cash and cash equivalents		\$ 4,900
Due from other funds		<u>50,086</u>
Total assets		<u>\$ 54,986</u>
	<u>LIABILITIES</u>	
Agency payables		<u>\$ 54,986</u>
Total liabilities		<u>54,986</u>
Total liabilities and net assets		<u><u>\$ 54,986</u></u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

Note 1. Organization and Reporting Entity

A. Organization

The County of Dukes County, Massachusetts (the County) is a body politic and corporate organized under Chapter 34 of the Massachusetts General Laws (MGL) and operates in accordance with the County Manager form of government, provided for under MGL Chapter 34A, Section 18. The County is governed by seven elected commissioners and an Advisory Board on County Expenditures. The Advisory Board is comprised of one selectman from each of the seven towns within the County.

The County's major operations include providing for the registry of deeds, veterans services, integrated pest management, emergency management, parking clerk and a health care access program.

In addition, the County owns the Martha's Vineyard Airport and is operated under the provisions of MGL Chapter 90, Section 51E. The County Commissioners appoint a seven member Airport Commission, which exercises custody and control of the airport. The current Airport Commission is comprised of six residents of the County and one County Commissioner.

B. Reporting Entity

General

The accompanying financial statements present the County of Dukes County, Massachusetts (the primary government) and its component units. Component units are included in the reporting entity if their operational and financial relationships with the County are significant. Pursuant to these criteria, the County did not identify any component units requiring inclusion in the accompanying financial statements.

Joint Ventures

The County has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The following is a list of the County's joint ventures, their purpose, and the annual assessment paid by the County. Financial statements may be obtained from each the joint ventures by contacting each of them directly. The County does not have an equity interest in the joint venture.

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY 2011 Assessment</u>
Cape Cod Municipal Health Group c/o Group Benefit Strategies 27 Midstate Office Park, Suite 204 Auburn, MA 01501	To provide employee health insurance benefits	\$ 760,320

The assessment consists of the total amounts billed to the County for all plans and is paid by a 90% and 10% primary care premium formula by the County and employees respectively. The County budgets annually in the general fund for its estimated share of contributions.

The financial position and results of operations of the Dukes County Retirement System (the System) and the Martha's Vineyard Land Bank Commission (MVLB) are not included in these basic financial statements, as they are not considered to be a part of the reporting entity. The financial

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

statements for the System can be obtained by contacting the System at 9 Airport Road, Suite 1, Vineyard Haven, Massachusetts, 02568. The financial statements of the MVLB can be obtained by contacting them at 167 Main Street, Edgartown, Massachusetts, 02568.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County is discussed below.

The County's basic financial statements include both government-wide (reporting the County as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The County's sheriff, registry, veteran's services, pest management, emergency management, and general administrative services are classified as governmental activities. The County's airport operations are classified as business-type activities.

Government-wide Statements

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the County's functions and business-type activities. Gross expenses (including depreciation) are reduced on the Statement of Activities by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs by function are normally covered by general revenue.

Certain costs, such as property and liability insurance, employee fringe benefit costs, among others are not allocated among the County's functions and are included in employee and other insurance expenses in the Statement of Activities.

The government-wide focus is more on the sustainability of the County as an entity and the change in the County's net assets resulting from the current year's activities.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

Fund Financial Statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following governmental fund types are used by the County:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the County:

- General fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.
- Deeds excise fund is used to account for excise collected on deeds that are filed when property is sold. The current excise rate is \$4.56 per thousand. The County retains 42.5% of excise collections, which are allocated between the Sheriff's department, the County general fund and the Registry of Deeds in accordance with the provisions of MGL, Chapter 64D, Section 11.
- Other special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service and capital projects.
- Capital projects funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays.
- Permanent funds are used to account for resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs – that is for the benefit of the government or its citizens. Currently, the County does not have any permanent funds.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the County:

- Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues, has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or establishes fees and charges based on a pricing policy designed to recover similar costs. The County utilizes the airport enterprise fund to account for the general operations, construction, and capital acquisitions of the Airport.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

- Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the County on a cost-reimbursement basis. Currently, the County does not utilize internal service funds.

Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support County programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the County:

- Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the County. Since these funds can not be used for providing County services, they are excluded from the County's government-wide financial statements.
- Agency accounts are used to hold funds on behalf of parties other than the County, including federal and state agencies. Agency funds are custodial in nature and do not involve measurement of results of operations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The County may electively add funds, as major funds, which have specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

The County's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

B. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the 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.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

Investment income is susceptible to accrual. Other receipts and assessments become measurable and available when the cash is received and are recognized as revenue at that time.

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.

C. Cash and Investments

For the purpose of the Statement of Net Assets, and proprietary funds Statement of Cash Flows, “cash and cash equivalents” include all demand, savings accounts and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are reported at fair value, which is determined using selected bases. Short-term investments with maturity dates of not more than ninety days from date of purchase are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash and certificates of deposit are reported at carrying value, which reasonably estimates fair value. Additional cash and investment information, and fair values are presented in these notes.

D. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

E. Receivables

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

F. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

Prior to July 1, 2002, governmental funds’ infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

➤ Buildings and improvements	20-40 years
➤ Land improvements	2-20 years
➤ Machinery and Equipment	5-10 years
➤ Vehicles	5 years
➤ Infrastructure	20-50 years

Governmental Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

G. Long-term Obligations

The accounting treatment of long-term obligations depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term obligations consist primarily of notes and bonds payable, accrued compensated absences, and other post-employment benefits.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

H. Compensated Absences

The County's policies and provisions of bargaining unit contracts regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term obligations in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

I. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

- Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance can be classified in the following components:

- Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts upon which constraints have been placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of the county commissioners.
- Assigned fund balance – consist of amounts that are constrained by the County’s intent to be used for a specific purpose. Intent is expressed by either the governing body, or the officials directly responsible for departmental appropriations
- Unassigned fund balance – represents the residual classification for the general fund. It represents amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

The County’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds were designated for one purpose at the time of their creation. Therefore, any expenditure made from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenditures during the reporting period. Actual results will differ from those estimates.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

K. Total Columns

The total column presented on the government-wide financial statements represents consolidated financial information.

The total column presented 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 3. Stewardship, Compliance and Accountability**A. County Tax and Limitations**

The county tax is levied annually by the County Commissioners on the basis of an approved budget, after deducting probable receipts from sources other than the county tax. The County Commissioners are also required to levy annually as a county tax, an amount sufficient to meet debt service costs in the event no provision has been made. All county taxes are apportioned and assessed upon the towns comprising the county in accordance with MGL Chapter 35, Section 28(B)(a).

Pursuant to MGL, Chapter 35, Section 30, the County is limited to retaining an undesignated fund balance not in excess of 10% of the previous year's county tax. Any excess must be applied to reduce the following year's county tax.

B. Fund Equities

Operations of the various County funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The County classifies fund equity in the fund financial statements as either nonspendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2011, the classification of the County's fund balances can be detailed as follows:

	<u>General Fund</u>	<u>Parking Clerk</u>	<u>Law Enforcement</u>	<u>Other Special Revenue</u>	<u>County Capital Projects</u>	<u>Total Governmental Funds</u>
Restricted:						
Parking clerk		1,261				1,261
Courthouse/Admine building					25,832	25,832
Registry of deeds				20,409		20,409
Civil defense/emergency mgmt				18,003		18,003
Health and human services				120,183		120,183
Veterans agent				4,884		4,884
Recreation				43,682		43,682
Integrated pest management				2,398		2,398
Animal shelter				118,586		118,586
Law enforcement			23,420			23,420
Other expenditures				35,222		35,222
subtotal		1,261	23,420	363,367	25,832	413,880
Unassigned	445,986			(60,817)	(80,804)	292,194
Total	<u>\$ 445,986</u>	<u>\$ 1,261</u>	<u>\$ 23,420</u>	<u>\$ 302,550</u>	<u>\$ (54,972)</u>	<u>\$ 718,245</u>

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

D. Restricted Net Assets

Certain net assets reported as special revenue funds in the County's fund basis Balance Sheet are classified as unrestricted net assets because they are available for appropriation to fund the general operations of the County.

Restricted net assets on the government-wide statement of net assets consist of the following:

Capital Project Fund Balance:	\$ 25,832
Special Revenue Fund Balances:	
Animal Shelter Fund	118,586
Comm Care Grant	58,598
VHCAP Grants	30,479
Other special revenue funds	<u>180,385</u>
Total restricted net assets	<u>\$ 413,880</u>

Note 4. Cash and Investments

Massachusetts General Laws, Chapter 35, Section 22, place certain limitations on cash deposits and investments available to the County. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The County may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof having a maturity from date of purchase of one year or less. The County may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The County may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

The County maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. The County does not have a formal deposit policy for custodial credit risk. At June 30, 2011, deposits totaled \$3,426,975 and had a carrying amount of \$1,999,642. Of the deposit amounts, \$3,426,975 was insured. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The County does not have an investment policy covering custodial credit risk.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The County does not have an investment policy regarding interest rate risk.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed in the following table. Equity securities, money market

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

funds, repurchase agreements and equity mutual funds are not rated as to credit risk. The County does not have an investment policy limiting its investment choices.

Concentration of credit risk – The County does not have an investment policy limiting the amount that can be invested in any one issuer or security. Excluding external investment pools, the County has no investments in any one issuer that represents five percent or more of total investments.

Note 5. Receivables

The County reports the aggregate amount of receivables in the accompanying Statement of Net Assets and Balance Sheet. In addition, governmental funds report, on the Balance Sheet, deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenues, if any, are also reported on the Statement of Net Assets.

The County includes the following receivables for individual major and non-major governmental funds, and fiduciary funds in the aggregate, including applicable allowances for uncollectible amounts and amounts deferred and unearned:

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>	<u>Deferred Revenue</u>
Intergovernmental	\$ 937	\$ -	\$ 937	\$ -
Other	211,355	-	211,355	-
Totals – Governmental Fund Basis/Entity-wide Basis	<u>\$ 212,292</u>	<u>\$ -</u>	<u>\$ 212,292</u>	<u>\$ -</u>

Receivables for the County's business-type activities consist of the following:

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>
Intergovernmental	\$ 103,634	\$ -	\$ 103,634
Other	314,120	-	314,120
Totals – Business-type activities	<u>\$ 417,754</u>	<u>\$ -</u>	<u>\$ 417,754</u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 480,172	\$ -	\$ -	\$ 480,172
Capital assets being depreciated:				
Buildings and related improvements	832,773	32,198		864,971
Machinery and equipment	313,088	39,628	39,165	313,551
Vehicles	54,679			54,679
Infrastructure	<u>21,850</u>	<u>-</u>	<u>-</u>	<u>21,850</u>
Sub-total	1,222,390	71,826	39,165	1,255,051
Less accumulated depreciation:				
Buildings and related improvements	612,283	12,160		624,443
Machinery and equipment	241,378	29,033	39,165	231,246
Vehicles	54,679			54,679
Infrastructure	<u>7,352</u>	<u>865</u>	<u>-</u>	<u>8,217</u>
Sub-total	<u>915,692</u>	<u>42,058</u>	<u>39,165</u>	<u>918,585</u>
Governmental capital assets, net	<u>\$ 786,870</u>	<u>\$ 29,768</u>	<u>\$ -</u>	<u>\$ 816,638</u>

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,410,887	\$ -	\$ -	\$ 1,410,887
Construction in progress	<u>255,139</u>	<u>9,985,805</u>	<u>-</u>	<u>10,240,944</u>
Sub-total	1,666,026	9,985,805		11,651,831
Capital assets being depreciated:				
Land improvements	4,244,603			4,244,603
Buildings and related improvements	15,996,777	30,748		16,027,525
Equipment, machinery & vehicles	3,743,719	298,941	240,857	3,801,803
Infrastructure	<u>11,479,412</u>	<u>-</u>	<u>-</u>	<u>11,479,412</u>
Sub-total	35,464,511	329,689	240,857	35,553,343
Less accumulated depreciation:				
Land improvements	2,519,622	211,211		2,730,833
Buildings and related improvements	5,673,771	423,640		6,097,411
Equipment, machinery & vehicles	2,612,457	201,450	206,841	2,607,066
Infrastructure	<u>4,821,369</u>	<u>463,625</u>	<u>-</u>	<u>5,284,994</u>
Sub-total	<u>15,627,219</u>	<u>1,299,926</u>	<u>206,841</u>	<u>16,720,304</u>
Business-type capital assets, net	<u>\$ 21,503,318</u>	<u>\$ 9,015,568</u>	<u>\$ 34,016</u>	<u>\$ 30,484,870</u>

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

Governmental activities:	
County Commissioners	\$ 3,065
Courthouse	8,641
Treasurer	8,136
Registry of Deeds	16,097
Health and human services	995
Parking	4,800
Recreation	<u>324</u>
	<u>\$ 42,058</u>
Total depreciation expense – governmental activities	
Business-type activities:	
Airport/Total	<u>\$ 1,299,926</u>

Note 7. Interfund Balances and Activity

Interfund transfers for the fiscal year ended June 30, 2011, consisted of the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Business-type Airport Funds</u>
Amounts transferred to General Fund to fund retiree health insurance	\$ 89,214	\$ -	\$ (89,214)
Amounts transferred to General Fund to fund indirect costs appropriated in General Fund	82,006	(232)	(81,774)
Amounts transferred from Deeds Excise Fund	<u>196,245</u>	<u>(196,245)</u>	<u>-</u>
Totals on governmental fund basis	<u>\$ 367,465</u>	<u>\$ (196,013)</u>	<u>\$ (170,988)</u>

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

Note 8. Temporary Borrowings

Under state law and by authorization of the County Commissioners, the County is authorized to borrow on a temporary (short-term) basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of tax anticipation notes (TANs),
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs),
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the County and carry maturity dates that are limited by statute. Interest expenditures for temporary borrowings are accounted for in the General Fund and Airport Enterprise Fund. Temporary borrowings are recorded as liabilities in the Capital Project Funds.

The County had no temporary loans outstanding at any time during the year ended June 30, 2010.

Since proceeds from bond anticipation notes are not considered permanent funding sources, the County may have deficit fund balances in the Capital Projects Fund. These deficits, if any, will be funded through long-term borrowing.

Note 9. Long-term Obligations

The following is a summary of changes in long-term obligations for the year:

<u>Purpose</u>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Governmental activities:					
Compensated absences	\$ 78,000	\$ -	\$ 11,000	\$ 67,000	\$ 45,000
Leases payable	24,000		5,982	18,018	8,424
Net OPEB obligation	166,324	115,980	-	282,304	-
Total governmental activities	<u>\$ 244,324</u>	<u>\$ 115,980</u>	<u>\$ 16,982</u>	<u>\$ 367,322</u>	<u>\$ 53,424</u>

<u>Purpose</u>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Business-type activities:					
Airport terminal, 4.70-5.25%, dtd 7/15/2000, due 7/15/2015	\$ 300,000	\$ -	\$ 50,000	\$ 250,000	\$ 50,000
Compensated absences	99,000	18,500		117,500	77,500
Net OPEB obligation	347,235	240,119	-	587,354	-
Total business-type activities noncurrent liabilities	<u>\$ 746,235</u>	<u>\$ 258,619</u>	<u>\$ 50,000</u>	<u>\$ 954,854</u>	<u>\$127,500</u>

Long-term debt

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2011, including interest, are as follows:

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

Business-type Activities

Year Ending

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$50,000	\$11,625	\$61,625
2013	50,000	9,125	59,125
2014	50,000	6,563	56,563
2015	50,000	3,962	53,962
2016	<u>50,000</u>	<u>1,325</u>	<u>51,325</u>
Totals	<u>\$ 250,000</u>	<u>\$32,600</u>	<u>\$ 282,600</u>

All long-term bond issues must be approved by the General Court of Massachusetts, as well as the County Commissioners and the County Advisory Board.

Lease obligations

A. Operating leases

The County has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. The annual minimum required lease payment for non-cancelable operating leases are immaterial as of June 30, 2011.

B. Capital leases

In accordance with Massachusetts General Laws, the County may enter into lease agreements for a period not to exceed five years and subject to annual appropriation. The annual requirement to pay down the principal of capital lease obligations outstanding as of June 30, 2011 is shown in the following table. Interest payments are 6.657% of the outstanding balance.

<u>Year Ended June 30,</u>	<u>Lease Principal</u>
Governmental activities:	
2012	\$ 8,424
2013	<u>9,594</u>
Totals	<u>\$ 18,018</u>

Note 10. Employee Benefits

A. Retirement Benefits

Plan Description

The County contributes for eligible employees, 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 (the Board). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System is governed by the applicable provisions of Chapter 32 of the Massachusetts General Law and other applicable statutes. Oversight is provided by a five member board. 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 of Massachusetts and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are funded by the System. The Association issues a publically available, unaudited annual report prepared in accordance with regulations established by the Commonwealth's Public Employee Retirement

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

Administration Commission. That report may be obtained by contacting the System at 9 Airport Road, RR1 Box 862, Vineyard Haven, Massachusetts 02568.

Funding Policy

Plan members are required to contribute 5-11% of their annual covered salary and the County is required to contribute at an actuarially determined rate based upon its share of system-wide contribution that is apportioned among the employers based upon active current payroll.

The County's current year contribution is \$231,972, which was equal to the required contribution. The contribution requirements of plan members and the County are established and may be amended by MGL. The County's contributions to the System for the years ending June 30, 2010 and 2009 were \$554,742 and \$529,891 respectively, which were equal to the required contributions for each year.

Schedule of Funding Progress

The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to actuarial accrued liability for benefits. This information is designed to be helpful for understanding the scale of the information presented relative to the County. Projection of benefits for financial reporting purposes does not explicitly incorporate any potential effects of legal or contractual funding limitations that may be applicable.

Dukes County Contributory Retirement System Schedule of Funding Progress

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b) - (a)</u>	<u>(a)/(b)</u>	<u>(c)</u>	<u>[(b)-(a)/c]</u>
1/1/2011	73,989,143	110,358,557	36,369,414	67.0%	29,118,456	125%
1/1/2009	60,628,878	97,882,251	37,253,373	61.9%	30,407,294	123%
1/1/2007	53,493,298	82,756,819	29,263,519	64.6%	26,285,973	111%
1/1/2005	43,587,979	68,303,109	24,715,130	63.8%	22,710,276	108%
1/1/2003	36,978,826	63,042,045	26,063,219	58.7%	20,191,180	129%
1/1/2001	31,491,429	45,304,948	13,813,519	69.5%	18,408,970	75%
1/1/1998	21,621,530	36,447,821	14,826,291	59.3%	14,311,001	104%

The following actuarial methods and assumptions were used in the System's most recent actuarial valuation dated January 1, 2011.

- Actuarial cost method: Individual entry age normal actuarial cost method
- Amortization method: Approximate level percent of payroll. Closed.
- Remaining amortization period: 18 years
- Plan asset valuation: Market value of assets (adjusted by accounts payable and receivable)
- Cost of living increases: Retirement benefits were assumed to increase annually by 3%, up to a maximum of \$360.
- Investment rate of return: Plan assets will accumulate at a compound annual rate of 8%.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

- g. Salary scale: Salaries including longevity will increase at an annual rate of 4.75%.
- h. Retirement rates: These rates vary based upon age and gender for general employees, and for police and fire.
- i. Mortality: The RP-2000 mortality rate for healthy annuitants (sex-distinct)
- j. Appropriations: The annual pension appropriation has been calculated in accordance with MGL Chapter 32, Section 22D.

B. Compensated Absences

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated unused sick leave is due to certain employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Assets.

C. Other Post Employment Benefits

Plan Description

The County administers a single employer defined benefit plan which provides health and dental insurance to substantially all retired employees and their spouses (plan members). Health and dental benefits were paid to approximately 32 retired participants and spouses during the fiscal year ended June 30, 2011 and are paid substantially on a pay as you go basis. These benefits are provided for and amended under various provisions of Massachusetts General Law, and the terms of collective bargaining agreements.

Funding Policy

The contribution rates of retirees are established by collective-bargaining agreements, and Massachusetts General Law. The required contribution is based on pay as you go financing requirements. For fiscal year 2010 the County contributed approximately \$165,096 to health and life insurance programs on behalf of retirees. All benefits are provided through a third-party insurance carrier that administers, assumes, and pays all claims. The County contributes 90% of insurance premiums with the remainder funded through pension benefit deductions.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the provisions of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

	Governmental	Business-type	
	Activities	Activities	Total
Annual required contribution	\$ 228,161	\$ 346,782	\$ 574,943
Interest on net OPEB obligation	24,725	12,153	36,878
Adjustment to annual required contribution	<u>(20,217)</u>	<u>(9,937)</u>	<u>(30,154)</u>
Annual OPEB cost (expense)	232,669	348,998	581,667
Contributions made	<u>116,689</u>	<u>108,879</u>	<u>225,568</u>
Increase in net OPEB obligation	115,980	240,119	356,099
Net OPEB obligation, beginning of year	<u>166,324</u>	<u>347,235</u>	<u>513,559</u>
Net OPEB obligation, end of year	<u>\$ 282,304</u>	<u>\$ 587,354</u>	<u>\$ 869,658</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Governmental activities:			
6/30/2011	\$ 232,669	50.2%	\$ 115,980
6/30/2010	131,974	51.9%	63,449
6/30/2009	131,974	22.0%	102,875
Business-type activities:			
6/30/2011	\$ 348,998	31.2%	\$ 240,119
6/30/2010	288,243	51.9%	138,579
6/30/2009	278,042	25.0%	208,656

Funding Status and Schedule of Funding Progress

The unfunded actuarial accrued liability was determined using the level dollar thirty year open amortization basis.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
Governmental activities:						
7/1/2010	\$ -	\$ 3,018,906	\$ 3,018,906	0%	898,981	335.8%
6/30/2009	\$ -	\$ 2,189,079	\$ 2,189,079	0%	818,041	267.6%
Business-type activities:						
7/1/2010	\$ -	\$ 3,907,747	\$ 3,907,747	0%	906,038	431.3%
6/30/2009	\$ -	\$ 3,429,918	\$ 3,429,918	0%	1,281,733	267.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past exceptions and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 5% after seven years. Both rates included a 4.5% inflation assumption. The actuarial value of the assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized over a 30 year period on a closed basis.

Note 11. Risk Management

The County is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The County is exposed to various risks of loss related to general liability, property and casualty, unemployment, employee health claims, and workers' compensation.

The County purchases general liability insurance and insures buildings and property through insurance policies. Losses are insured to the extent the losses exceed the deductibles.

As discussed in Note 1, the County participates in the Cape Cod Municipal Health Group (Group) a municipal joint-purchase group consisting of 51 governmental units, formed pursuant to Massachusetts General Law Chapter 32B to provide employee insurance benefits. Employees and the County both contribute to the Group based upon a 90% (County) and 10% (Employee) primary care premium formula. The County budgets, annually, in the general fund for its estimated share of contributions. At June 30, 2011, the group had net assets of \$23,701,791 (unaudited).

Note 12. Commitments and 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, 2011, 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, would 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, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the County's financial position at June 30, 2011.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Financial Statements

June 30, 2011

During fiscal year 2006, the Airport was billed for water usage by the Oak Bluffs Water District in the amount of \$333,999 for fiscal year 2006 usage. The Airport is disputing \$246,428 of the cost because it believes that it was over-billed due to leaks in the water lines. The Airport has estimated the actual fiscal year 2006 usage cost to be \$87,571 and has paid \$64,346 of the estimated liability. The remaining balance of \$23,225 has been accrued in the Airport enterprise fund. It is not known whether the Airport will prevail in this dispute.

Note 13. Future GASB Pronouncements

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which the County believes are applicable to its financial statements.

Current pronouncements

The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which was required to be implemented in fiscal 2011. The County has implemented the provisions of this pronouncement, reporting fund balances under the new fund balance classifications.

The GASB issued Statement #59, *Financial Instruments Omnibus*, which is required to be implemented in fiscal year 2011. This pronouncement had no significant effect upon the County's financial statements.

Future pronouncements

The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. This pronouncement's objective is to improve financial reporting by addressing issues related to service concession arrangements (SCA), which are types of public-private or public-public partnerships through the use of infrastructure or another public asset in exchange for significant consideration. The County doesn't believe this pronouncement will impact the County's financial statements.

The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, which is required to be implemented in fiscal year 2013. This pronouncement modifies requirements for the inclusion of component units in the financial reporting entity. The County doesn't believe this pronouncement will impact the County's financial statements.

The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. This pronouncement will continue the codification of all generally accepted accounting principles for state and local governments into a single source.

The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No.53.*, which is required to be implemented in fiscal year 2012. This pronouncement addresses financial reporting issues involving hedge accounting surrounding derivative instruments. The County doesn't believe this pronouncement will impact the County's financial statements.

Required Supplementary Information

COUNTY OF DUKES COUNTY, MASSACHUSETTS
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budgetary Basis - General Fund - Budget and Actual
For the year ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Town assessments	\$ 828,701	\$ 828,701	\$ 828,701	\$
State grants			10,000	10,000
Courthouse rental	77,000	77,000	81,061	4,061
Registry fees	206,000	206,000	232,862	26,862
Beach fees	45,500	45,500	45,000	(500)
Parking fees	62,000	62,000	69,337	7,337
Communication center fees	138,000	138,000	146,120	8,120
Investment income	15,000	15,000	3,911	(11,089)
Departmental and other	284,182	284,182	311,692	27,510
Total revenues	1,656,383	1,656,383	1,728,684	72,301
Expenditures:				
County commissioners	168,518	173,897	168,835	5,062
Parking clerk	80,928	77,069	75,267	1,802
Courthouse/administrative building	128,002	125,541	110,043	15,498
Treasurer	231,820	237,337	240,774	(3,437)
Registry of deeds	282,361	282,361	379,618	(97,257)
Civil defense/emergency management	9,418	9,418	9,312	106
Health council	500	500	300	200
Health and human services	150,000	149,315	149,497	(182)
Retiree benefits	167,807	166,491	165,837	654
Veterans agent	65,549	66,154	65,958	196
Recreation	1,000	1,000		1,000
Integrated pest management	76,692	76,881	74,045	2,836
Law enforcement	501,703	501,703	501,683	20
Other expenditures	53,268	54,142	87,072	(32,930)
Total Expenditures	1,917,566	1,921,809	2,028,241	(106,432)
Revenues over (under) expenditures	(261,183)	(265,426)	(299,557)	(34,131)
Other financing sources (uses):				
Transfers in	261,761	261,761	367,465	105,704
Revenues and other financing sources over (under) expenditures and other financing uses	578	(3,665)	67,908	\$ 71,573
Fund balances, beginning of year			362,383	
Fund balance, end of year			<u>\$ 430,291</u>	
Other budget items:				
Budgeted use of fund balance	-	-		
Net budget	<u>\$ 578</u>	<u>\$ (3,665)</u>		

See accompanying note to schedule of revenues, expenditures, and changes in fund balance - budgetary basis.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Required Supplementary Information

June 30, 2011

Schedule of Funding Progress – Dukes County Retirement System

Dukes County Contributory Retirement System

Schedule of Funding Progress

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b) - (a)</u>	<u>(a)/(b)</u>	<u>(c)</u>	<u>[(b)-(a)/c]</u>
1/1/2011	73,989,143	110,358,557	36,369,414	67.0%	29,118,456	125%
1/1/2009	60,628,878	97,882,251	37,253,373	61.9%	30,407,294	123%
1/1/2007	53,493,298	82,756,819	29,263,519	64.6%	26,285,973	111%
1/1/2005	43,587,979	68,303,109	24,715,130	63.8%	22,710,276	108%
1/1/2003	36,978,826	63,042,045	26,063,219	58.7%	20,191,180	129%
1/1/2001	31,491,429	45,304,948	13,813,519	69.5%	18,408,970	75%
1/1/1998	21,621,530	36,447,821	14,826,291	59.3%	14,311,001	104%

The County's share of the UAAL, as of January 1, 2011 was approximately 5%

Schedule of Employer Contributions

<u>Plan Year Ended December 31</u>	<u>Annual Required Contributions</u>	<u>(A) Actual Contributions</u>	<u>Percentage Contributed</u>	<u>(B) Actual Contributions</u>	<u>(B/A) County's Percentage of System Wide Actual Contributions</u>
2004	\$ 2,766,595	\$ 2,766,595	100%	\$ 480,833	17.38%
2005	3,372,865	3,372,865	100%	513,704	15.23%
2006	3,782,369	3,782,369	100%	515,242	13.62%
2007	3,612,812	3,612,812	100%	515,218	14.26%
2008	4,200,863	4,200,863	100%	529,891	12.61%

The County's Actual Contributions equaled 100% of its Required Contributions for each year presented.

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Required Supplementary Information

June 30, 2011

Schedule of Funding Progress – Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
Governmental activities:						
7/1/2010	\$ -	\$ 3,018,906	\$ 3,018,906	0%	898,981	335.8%
6/30/2009	\$ -	\$ 2,189,079	\$ 2,189,079	0%	818,041	267.6%
Business-type activities:						
7/1/2010	\$ -	\$ 3,907,747	\$ 3,907,747	0%	906,038	431.3%
6/30/2009	\$ -	\$ 3,429,918	\$ 3,429,918	0%	1,281,733	267.6%

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2011

NOTE A . BUDGETARY BASIS OF ACCOUNTING

1. Budgetary Information

MGL required 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 2011 approved budget for the General Fund authorized approximately \$1.4 million, in appropriations. During fiscal year 2011, the Advisory Board also approved supplemental appropriations totaling approximately \$5,000.

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.

COUNTY OF DUKES COUNTY
Airport Commission Combining Schedules
For the year ending June 30, 2011

Airport Commission Combining Schedules

COUNTY OF DUKES COUNTY, MASSACHUSETTS

Airport Commission Combining Schedules for the year ending June 30, 2011

The airport commission accounts for the general operations, construction, and capital acquisitions of the Airport as separate activities and the internal ledgers reports them as indicated below.

Operations Fund - This 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.

Passenger Facility Charge Fund - This fund is used to account for the passenger Facility Charge (PFC) Program which allows the collection of PGC fees for every enplaned passenger at commercial airports controlled by public agencies. These fees can be used to fund FAA-approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition.

Fuel Revolving Fund - This fund is used to account for purchases and sales of fuel.

Transportation Security Administration Fund - This fund is used to account for grant funds received from the federal government which are designated for transportation security.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal interest.

Environmental Assessment Fund - This fund is used to account for financial resources to be used for environmental assessments related to the airport capital plan.

Multi-Year Capital Projects Fund - This fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

MVY Stabilization Fund - This fund is used to account for the accumulation of resources to stabilize airport operations. The use of these funds must be approved majority voted of the Airport Commission.

Long-Term Obligations Fund - This fund is used to account for liabilities that have maturities of greater than one year.

Capital Assets Fund - This is used to account for fixed asset additions, retirements and depreciation expense.

County of Dukes County, Massachusetts
 Airport Commission Activities
 Combining Schedule of Net Assets
 June 30, 2011

	<u>Operations</u>	<u>Fuel Revolving</u>	<u>Transportation Security Administration</u>	<u>Debt Service</u>	<u>Multi-Year Capital Projects</u>	<u>MVY Stabilization</u>	<u>Long-Term Obligations</u>	<u>Fixed Assets</u>	<u>Total</u>
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 370,242	\$	\$	\$ 102,765	\$ 786,304	\$ 162,319	\$	\$	\$ 1,421,630
Due from other funds	1,401,940	330,540		147,217	137,743	220,140			2,237,580
Intergovernmental receivables			103,634						103,634
Departmental and other receivables	314,120								314,120
Inventories		193,408							193,408
Total current assets	2,086,302	523,948	103,634	249,982	924,047	382,459			4,270,372
Non-current assets:									
Capital assets, non-depreciable								11,651,831	11,651,831
Capital assets, net of accumulated depreciation								18,833,039	18,833,039
Total non-current assets								30,484,870	30,484,870
Total assets	<u>\$ 2,086,302</u>	<u>\$ 523,948</u>	<u>\$ 103,634</u>	<u>\$ 249,982</u>	<u>\$ 924,047</u>	<u>\$ 382,459</u>	<u>\$</u>	<u>\$ 30,484,870</u>	<u>\$34,755,242</u>
LIABILITIES									
Current Liabilities:									
Warrants payable	190,663	275,227	18,058		438,716				922,664
Accrued interest payable							5,890		5,890
Customer deposits payable	48,283	47,767							96,050
Retainage payable					780,513				780,513
Due to other funds			156,786		2,267,748				2,424,534
Other liabilities	2,041								2,041
Compensated absences							77,500		77,500
Bonds, notes and loans payable							50,000		50,000
Total current liabilities	240,987	322,994	174,844		3,486,977		133,390		4,359,192
Non-current liabilities:									
Compensated absences							40,000		40,000
Bonds, notes and loans payable							200,000		200,000
Other post-employment benefits							587,354		587,354
Total non-current liabilities							827,354		827,354
Total liabilities	240,987	322,994	174,844		3,486,977		960,744		5,186,546
NET ASSETS									
Invested in capital assets, net of related debt							(250,000)	30,484,870	30,234,870
Unrestricted	1,845,315	200,954	(71,210)	249,982	(2,562,930)	382,459	(710,744)		(666,174)
Total net assets	1,845,315	200,954	(71,210)	249,982	(2,562,930)	382,459	(960,744)	30,484,870	29,568,696
Total liabilities and net assets	<u>\$ 2,086,302</u>	<u>\$ 523,948</u>	<u>\$ 103,634</u>	<u>\$ 249,982</u>	<u>\$ 924,047</u>	<u>\$ 382,459</u>	<u>\$</u>	<u>\$ 30,484,870</u>	<u>\$34,755,242</u>

County of Dukes County, Massachusetts
 Airport Commission Activities
 Combining Statement of Revenues, Expenses and Changes in Net Assets
 For the Year Ended June 30, 2011

	<u>Operations</u>	<u>Fuel Revolving</u>	<u>Transportation Security Administration</u>	<u>Debt Service</u>	<u>Environmental Assessment</u>	<u>Multi-Year Capital Projects</u>	<u>MVY Stabilization</u>	<u>Long-Term Obligations</u>	<u>Fixed Assets</u>	<u>Total</u>
OPERATING REVENUES										
Charges for services	\$ 1,302,846	\$	\$	\$	\$	\$	\$	\$	\$	\$ 1,302,846
Intergovernmental			120,805							120,805
Fuel		3,196,251								3,196,251
Business park	1,125,212									1,125,212
Wastewater revenue	82,094									82,094
Total operating revenues	2,510,152	3,196,251	120,805							5,827,208
OPERATING EXPENSES										
Cost of services and administration	2,901,647					10,072,316		18,500	(10,281,478)	2,710,985
Fuel		2,093,563								2,093,563
Wastewater facilities	201,750									201,750
Transportation security			195,481							195,481
Post-employment benefits								240,119		240,119
Depreciation									1,299,926	1,299,926
Total operating expenses	3,103,397	2,093,563	195,481			10,072,316		258,619	(8,981,552)	6,741,824
Operating income (loss)	(593,245)	1,102,688	(74,676)			(10,072,316)		(258,619)	8,981,552	(914,616)
NON-OPERATING REVENUES (EXPENSES)										
Investment income	9,883									9,883
Interest expense	(14,038)							1,088		(12,950)
Intergovernmental						8,947,866				8,947,866
Debt service - principal	(50,000)							50,000		
Total non-operating revenue (expenses)	(54,155)					8,947,866		51,088		8,944,799
Income (loss) before contributions and transfers	(647,400)	1,102,688	(74,676)			(1,124,450)		(207,531)	8,981,552	8,030,183
TRANSFERS:										
Transfers out	(170,988)									(170,988)
Intrafund transfers	1,042,774	(1,041,063)			(1,711)					
Special item - gain (loss) on sale of asset										
Change in net assets	224,386	61,625	(74,676)		(1,711)	(1,124,450)		(207,531)	8,981,552	7,859,195
Total net assets - beginning	1,620,929	139,329	3,466	249,982	1,711	(1,438,480)	382,459	(753,213)	21,503,318	21,709,501
Total net assets - ending	\$ 1,845,315	\$ 200,954	\$ (71,210)	\$ 249,982	\$	\$ (2,562,930)	\$ 382,459	\$ (960,744)	\$ 30,484,870	\$ 29,568,696