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Independent Auditors' Report

To the Honorable County Commissioners
County of Dukes County, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Dukes County, Massachusetts, as of and for the fiscal year ended June 30, 2007, 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Dukes County, Massachusetts, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2008, 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 read in conjunction with this report in considering the results of our audit.

The combining schedule section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

August 15, 2008

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 352,867	\$ 1,579,931	\$ 1,932,798
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	22,389	212,269	234,658
Other.....	64,369	13,324	77,693
Inventory.....	-	142,097	142,097
Total current assets.....	<u>439,625</u>	<u>1,947,621</u>	<u>2,387,246</u>
NONCURRENT:			
Capital assets, non depreciable.....	480,172	1,429,117	1,909,289
Capital assets, net of accumulated depreciation.....	<u>1,452,772</u>	<u>22,819,709</u>	<u>24,272,481</u>
Total noncurrent assets.....	<u>1,932,944</u>	<u>24,248,826</u>	<u>26,181,770</u>
TOTAL ASSETS.....	<u>2,372,569</u>	<u>26,196,447</u>	<u>28,569,016</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	74,284	348,296	422,580
Accrued interest.....	-	11,333	11,333
Other liabilities.....	56,265	184,067	240,332
Customer deposits payable.....	329	5,000	5,329
Compensated absences.....	42,000	30,000	72,000
Bonds and notes payable.....	-	100,000	100,000
Total current liabilities.....	<u>172,878</u>	<u>678,696</u>	<u>851,574</u>
NONCURRENT:			
Compensated absences.....	91,000	13,000	104,000
Bonds and notes payable.....	-	400,000	400,000
Total noncurrent liabilities.....	<u>91,000</u>	<u>413,000</u>	<u>504,000</u>
TOTAL LIABILITIES.....	<u>263,878</u>	<u>1,091,696</u>	<u>1,355,574</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	1,932,944	23,748,826	25,681,770
Restricted for:			
Capital outlay.....	-	212,269	212,269
Gifts and grants.....	74,301	-	74,301
Unrestricted.....	<u>101,446</u>	<u>1,143,656</u>	<u>1,245,102</u>
TOTAL NET ASSETS.....	<u>\$ 2,108,691</u>	<u>\$ 25,104,751</u>	<u>\$ 27,213,442</u>

See notes to basic financial statements.



STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
County commissioners.....	\$ 205,676	\$ -	\$ -	\$ -	\$ (205,676)
Parking clerk.....	265,020	264,834	-	-	(186)
Courthouse/Administrative building....	151,803	52,588	-	-	(99,215)
Treasurer.....	224,617	-	-	-	(224,617)
Registry of deeds.....	350,302	265,519	35,890	-	(48,893)
Civil defense.....	14,346	-	-	-	(14,346)
Health council.....	4,895	-	-	-	(4,895)
Health and human services.....	108,867	-	49,723	-	(59,144)
Engineering.....	74,033	30,809	-	-	(43,224)
Retiree benefits.....	235,988	-	-	-	(235,988)
Veterans agent.....	56,686	-	-	-	(56,686)
Testing laboratory.....	10,254	-	-	-	(10,254)
Recreation.....	7,575	685	-	-	(6,890)
Rodent control.....	64,947	19,246	-	-	(45,701)
Charter study commission.....	3,014	-	-	-	(3,014)
Interest.....	3,779	-	-	-	(3,779)
House of corrections/sheriff.....	3,780,904	262,702	2,216,734	-	(1,301,468)
Other expenditures.....	63,634	-	-	-	(63,634)
Total Governmental Activities.....	5,626,340	896,383	2,302,347	-	(2,427,610)
<i>Business-Type Activities:</i>					
Airport.....	5,945,895	5,630,443	138,723	144,459	(32,270)
Total Primary Government.....	\$ 11,572,235	\$ 6,526,826	\$ 2,441,070	\$ 144,459	\$ (2,459,880)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (2,427,610)	\$ (32,270)	\$ (2,459,880)
<i>General revenues:</i>			
Town assessments.....	769,530	-	769,530
County deeds excise tax.....	1,110,718	-	1,110,718
Grants and contributions not restricted to specific programs.....	61,507	-	61,507
Unrestricted investment income.....	9,390	15,619	25,009
Miscellaneous.....	130,595	-	130,595
<i>Transfers, net</i>	343,540	(343,540)	-
Total general revenues and transfers.....	2,425,280	(327,921)	2,097,359
 Change in net assets.....	 (2,330)	 (360,191)	 (362,521)
 <i>Net Assets:</i>			
Beginning of year.....	2,111,021	25,464,942	27,575,963
 End of year.....	 \$ 2,108,691	 \$ 25,104,751	 \$ 27,213,442

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2007

ASSETS	<u>General</u>	<u>Sheriff</u>	<u>Other Special Revenue</u>	<u>County Capital Projects</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 223,859	\$ -	\$ 128,908	\$ 100	\$ 352,867
Receivables, net of uncollectibles:					
Intergovernmental.....	21,452	-	937	-	22,389
Other.....	64,369	-	-	-	64,369
Due from other funds.....	<u>2,742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,742</u>
TOTAL ASSETS.....	\$ <u>312,422</u>	\$ <u>-</u>	\$ <u>129,845</u>	\$ <u>100</u>	\$ <u>442,367</u>
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 14,548	\$ 30,548	\$ 29,188	\$ -	\$ 74,284
Liabilities due depositors.....	-	329	-	-	329
Other liabilities.....	53,183	1,969	1,113	-	56,265
Due to other funds.....	<u>-</u>	<u>2,742</u>	<u>-</u>	<u>-</u>	<u>2,742</u>
TOTAL LIABILITIES.....	<u>67,731</u>	<u>35,588</u>	<u>30,301</u>	<u>-</u>	<u>133,620</u>
 FUND BALANCES:					
Unreserved:					
Designated for subsequent year's expenditures..	48,500	-	-	-	48,500
Undesignated, reported in:					
General fund.....	196,191	-	-	-	196,191
Special revenue funds.....	-	(35,588)	99,544	-	63,956
Capital projects funds.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>100</u>
TOTAL FUND BALANCES.....	<u>244,691</u>	<u>(35,588)</u>	<u>99,544</u>	<u>100</u>	<u>308,747</u>
TOTAL LIABILITIES AND FUND BALANCES.....	\$ <u>312,422</u>	\$ <u>-</u>	\$ <u>129,845</u>	\$ <u>100</u>	\$ <u>442,367</u>

See notes to basic financial statements.

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

JUNE 30, 2007

Total governmental fund balances.....	\$ 308,747
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	1,932,944
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Compensated absences.....	<u>(133,000)</u>
Net assets of governmental activities.....	<u>\$ 2,108,691</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2007

	General	Deeds Excise	Sheriff	Other Special Revenue	County Capital Projects	Total Governmental Funds
REVENUES:						
Town assessments.....	\$ 769,530	\$ -	\$ -	\$ -	\$ -	\$ 769,530
State grants.....	35,890	-	2,221,953	82,413	-	2,340,256
Courthouse rental.....	52,588	-	-	-	-	52,588
Registry of deeds.....	265,519	1,110,718	-	-	-	1,376,237
Dog license revenue.....	-	-	-	15,303	-	15,303
Beach fees.....	685	-	-	-	-	685
Parking fees.....	38,873	-	-	225,961	-	264,834
Communication center.....	129,267	-	-	-	-	129,267
Engineering fees.....	30,809	-	-	-	-	30,809
Investment income.....	9,215	-	128	47	-	9,390
Miscellaneous.....	134,821	-	127,935	28,815	-	291,571
TOTAL REVENUES.....	1,467,197	1,110,718	2,350,016	352,539	-	5,280,470
EXPENDITURES:						
Current:						
County commissioners.....	200,962	-	-	-	-	200,962
Parking clerk.....	38,178	-	-	226,842	-	265,020
Courthouse/Administrative building.....	151,803	-	-	-	-	151,803
Treasurer.....	229,142	-	-	-	-	229,142
Registry of deeds.....	339,876	-	-	-	-	339,876
Civil defense/emergency management.....	6,900	-	-	7,446	-	14,346
Health council.....	4,895	-	-	-	-	4,895
Health and human services.....	80,209	-	-	27,663	-	107,872
Engineering.....	74,033	-	-	-	-	74,033
Retiree benefits.....	235,988	-	-	-	-	235,988
Veterans agent.....	53,445	-	-	3,241	-	56,686
Health and environment.....	6,337	-	-	-	-	6,337
Recreation.....	6,731	-	-	-	-	6,731
Rodent control.....	62,476	-	-	-	-	62,476
Charter study commission.....	3,014	-	-	-	-	3,014
House of corrections/sheriff.....	-	-	3,670,173	-	-	3,670,173
Other expenditures.....	35,592	-	2,847	25,195	-	63,634
Debt service:						
Interest.....	3,279	-	500	-	-	3,779
TOTAL EXPENDITURES.....	1,532,860	-	3,673,520	290,387	-	5,496,767
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(65,663)	1,110,718	(1,323,504)	62,152	-	(216,297)
OTHER FINANCING SOURCES (USES):						
Transfers in - corrections maintenance of effort.....	-	-	477,528	-	-	477,528
Transfers out - corrections maintenance of effort.....	(477,528)	-	-	-	-	(477,528)
Transfers in - retirees' health insurance.....	122,372	-	-	-	-	122,372
Transfers in - cost allocations.....	115,651	-	-	-	-	115,651
Transfers out - cost allocations.....	-	(2,009)	(30,000)	(3,621)	-	(35,630)
Transfers in - deeds excise.....	277,177	-	831,532	-	-	1,108,709
Transfers out - deeds excise.....	-	(1,108,709)	-	-	-	(1,108,709)
Transfers in - other.....	141,147	-	16,000	-	-	157,147
Transfers out - other.....	(16,000)	-	-	-	-	(16,000)
TOTAL OTHER FINANCING SOURCES (USES).....	162,819	(1,110,718)	1,295,060	(3,621)	-	343,540
NET CHANGE IN FUND BALANCES.....	97,156	-	(28,444)	58,531	-	127,243
FUND BALANCES AT BEGINNING OF YEAR.....	147,535	-	(7,144)	41,013	100	181,504
FUND BALANCES AT END OF YEAR.....	\$ 244,691	\$ -	\$ (35,588)	\$ 99,544	\$ 100	\$ 308,747

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds.....	\$	127,243
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....		56,061
Depreciation expense.....		<u>(178,634)</u>
Net effect of reporting capital assets.....		(122,573)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....		<u>(7,000)</u>
Change in net assets of governmental activities.....	\$	<u><u>(2,330)</u></u>

See notes to basic financial statements.



**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2007

	Business-type Activities - Airport Enterprise Funds
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ 1,579,931
Receivables, net of allowance for uncollectibles:	
Intergovernmental.....	212,269
Departmental and other.....	13,324
Inventory.....	142,097
Total current assets.....	1,947,621
NONCURRENT:	
Capital assets, non depreciable.....	1,429,117
Capital assets, net of accumulated depreciation.....	22,819,709
Total noncurrent assets.....	24,248,826
TOTAL ASSETS.....	26,196,447
LIABILITIES	
CURRENT:	
Warrants payable.....	348,296
Accrued interest.....	11,333
Customer deposits payable.....	5,000
Other liabilities.....	184,067
Compensated absences.....	30,000
Bonds and notes payable.....	100,000
Total current liabilities.....	678,696
NONCURRENT:	
Compensated absences.....	13,000
Bonds and notes payable.....	400,000
Total noncurrent liabilities.....	413,000
TOTAL LIABILITIES.....	1,091,696
NET ASSETS	
Invested in capital assets, net of related debt.....	23,748,826
Restricted for:	
Capital outlay.....	212,269
Unrestricted.....	1,143,656
TOTAL NET ASSETS.....	\$ 25,104,751

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2007

	<u>Business-type Activities - Airport Enterprise Funds</u>
<u>OPERATING REVENUES:</u>	
Charges for services.....	\$ 1,078,766
Intergovernmental.....	138,723
Fuel.....	3,487,875
Business park.....	949,687
Wastewater revenue.....	<u>114,115</u>
 TOTAL OPERATING REVENUES	 <u>5,769,166</u>
<u>OPERATING EXPENSES:</u>	
Cost of services and administration.....	1,981,390
Fuel.....	2,239,746
Water facilities.....	80,379
Wastewater facilities.....	174,312
Transportation security.....	138,657
Depreciation.....	<u>1,306,488</u>
 TOTAL OPERATING EXPENSES	 <u>5,920,972</u>
 OPERATING INCOME (LOSS).....	 <u>(151,806)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Investment income.....	15,619
Interest expense.....	(24,923)
Intergovernmental.....	<u>144,459</u>
 TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	 <u>135,155</u>
 INCOME (LOSS) BEFORE TRANSFERS.....	 <u>(16,651)</u>
<u>TRANSFERS:</u>	
Transfers out - retirees' health insurance.....	(122,372)
Transfers out - cost allocations.....	(80,021)
Transfers in - other.....	1,399,937
Transfers out - other.....	<u>(1,541,084)</u>
 TOTAL TRANSFERS.....	 <u>(343,540)</u>
 CHANGE IN NET ASSETS.....	 (360,191)
 NET ASSETS AT BEGINNING OF YEAR.....	 <u>25,464,942</u>
 NET ASSETS AT END OF YEAR.....	 <u>\$ 25,104,751</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2007

	<u>Business-type Activities - Airport Enterprise Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from customers and users.....	\$ 5,685,664
Receipts from other governments.....	176,503
Payments to vendors.....	(3,829,173)
Payments to employees.....	<u>(943,596)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>1,089,398</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>	
Transfers out.....	<u>(1,743,477)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>	
Capital grants.....	1,125,209
Acquisition and construction of capital assets.....	(1,430,335)
Principal payments on bonds and notes.....	(900,000)
Interest expense.....	<u>(27,101)</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(1,232,227)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Investment income.....	<u>15,619</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(470,750)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>2,050,681</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 1,579,931</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>	
Operating income (loss).....	\$ <u>(151,806)</u>
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation.....	1,306,488
Changes in assets and liabilities:	
Departmental and other.....	55,221
Intergovernmental.....	37,780
Inventory.....	43,740
Warrants payable.....	(108,242)
Other liabilities.....	(99,783)
Accrued compensated absences.....	<u>6,000</u>
Total adjustments.....	<u>1,241,204</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 1,089,398</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ <u>63,910</u>
LIABILITIES	
Other liabilities.....	\$ <u>63,910</u>

See notes to basic financial statements.