

TOWN OF DENNIS, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

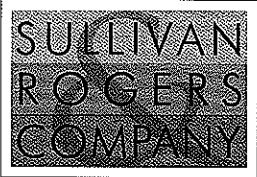
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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Dennis, Massachusetts

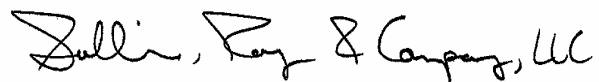
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Dennis, Massachusetts, as of and for the year ended June 30, 2006, which collectively comprise the Town of Dennis, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Dennis, 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 Town of Dennis, Massachusetts, as of June 30, 2006, 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 October 20, 2006 on our consideration of the Town of Dennis, Massachusetts' internal control over financial reporting and on 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information presented on pages 4 through 13 and 51 through 53, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

A handwritten signature in black ink that reads "Zulli, Roy & Company, LLC". The signature is written in a cursive style with a large initial 'Z'.

October 20, 2006

Management's Discussion and Analysis

As management of the Town of Dennis, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$86,240,704 (net assets). Of this amount, \$15,362,408 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$3,789,235.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$8,904,299 a decrease of \$3,893,829 in comparison with the prior year. Approximately \$7,420,000 represents unreserved fund balance of the general fund, operating and capital stabilization funds (major funds), nonmajor special revenue funds and permanent funds. The community preservation fund (major fund) and capital projects funds' deficits totaling \$1,408,168 and \$166,367, respectively, will be funded by the issuance of long-term debt in future fiscal years.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$1,479,869, or 4.0 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$2,177,117 during the fiscal year; \$100,000 of new MWPAT debt was issued for the septic loan program.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains other 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 Town's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the Town's non-fiduciary 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 Town is improving or deteriorating.

The **statement of activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the Town 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*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, community development, land purchases and debt service - interest. Business-type activities include golf course and transfer station operations.

The government-wide financial statements can be found on pages 15-17 of this report.

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 Town, 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 the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains approximately 148 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, operating stabilization (special revenue), capital stabilization (special revenue) and community preservation (special revenue) funds, each of which are considered to be major funds. Data from the other 144 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The Town adopts an annual appropriated budget for the general fund. A budgetary comparison schedule (located on page 52) has been provided to demonstrate compliance with the fiscal year 2006 budget.

The basic governmental funds financial statements can be found on pages 18-23 of this report.

Proprietary funds

The Town 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 Town uses enterprise funds to account for its golf course and transfer station operations, both of which are considered to be major funds.

The basic proprietary funds financial statements can be found on pages 24-26 of this report.

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 statements because the resources of those funds are not available to support the Town's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary funds financial statements can be found on pages 27-28 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-50 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund, which can be found on pages 51-53 of this report.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$86,240,704 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets.....	\$ 15,822,395	\$ 15,543,103	\$ 2,527,397	\$ 2,123,661	\$ 18,349,792	\$ 17,666,764
Noncurrent assets (excluding capital assets).....	436,973	271,194	-	-	436,973	271,194
Capital assets (net).....	81,789,300	76,854,707	11,213,393	11,274,177	93,002,693	88,128,884
Total assets.....	98,048,668	92,669,004	13,740,790	13,397,838	111,789,458	106,066,842
Liabilities						
Current liabilities (excluding debt).....	929,844	1,035,268	143,518	160,767	1,073,362	1,196,035
Noncurrent liabilities (excluding debt).....	668,792	634,650	77,332	69,270	746,124	703,920
Current debt.....	6,342,612	2,168,345	235,000	235,000	6,577,612	2,403,345
Noncurrent debt.....	16,446,656	18,372,073	705,000	940,000	17,151,656	19,312,073
Total liabilities.....	24,387,904	22,210,336	1,160,850	1,405,037	25,548,754	23,615,373
Net Assets						
Invested in capital assets (net of related debt).....	59,787,105	57,031,779	10,273,393	10,099,177	70,060,498	67,130,956
Restricted.....	817,798	1,507,164	-	-	817,798	1,507,164
Unrestricted.....	13,055,861	11,919,725	2,306,547	1,893,624	15,362,408	13,813,349
Total net assets.....	\$ 73,660,764	\$ 70,458,668	\$ 12,579,940	\$ 11,992,801	\$ 86,240,704	\$ 82,451,469

The largest portion of the Town's net assets (81.2%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings, machinery and equipment and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used 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 Town's net assets (1.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (17.8% or \$15,362,408) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$13,055,861 may be used to support governmental activities and \$2,306,547 may be used to support business-type activities.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Assets

For the fiscal year ended June 30, 2006, the Town's total net assets increased by \$3,789,235, compared to an increase of \$2,346,261 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 4,972,856	\$ 4,603,993	\$ 4,420,978	\$ 4,052,179	\$ 9,393,834	\$ 8,656,172
Operating grants and contributions.....	1,980,243	1,514,729	-	-	1,980,243	1,514,729
Capital grants and contributions.....	2,429,030	942,796	-	-	2,429,030	942,796
<i>General Revenues:</i>						
Real estate, personal property taxes and tax liens.....	26,488,638	25,423,170	-	-	26,488,638	25,423,170
Motor vehicle and other excise taxes.....	2,149,102	2,673,531	-	-	2,149,102	2,673,531
Hotel/motel taxes.....	424,615	392,108	-	-	424,615	392,108
Penalties and interest on taxes.....	180,267	154,389	-	-	180,267	154,389
CPA/Landbank surcharges.....	777,804	758,801	-	-	777,804	758,801
Grants and contributions not restricted to specific programs.....	613,757	535,731	-	-	613,757	535,731
Unrestricted investment income.....	290,072	162,388	-	-	290,072	162,388
Other.....	17,877	20,938	-	-	17,877	20,938
Total revenues.....	40,324,261	37,182,574	4,420,978	4,052,179	44,745,239	41,234,753
Expenses						
General government.....	4,507,063	4,447,891	-	-	4,507,063	4,447,891
Public safety.....	10,414,974	9,658,943	-	-	10,414,974	9,658,943
Education.....	13,577,054	13,556,990	-	-	13,577,054	13,556,990
Public works.....	4,354,966	4,292,639	-	-	4,354,966	4,292,639
Health and human services.....	1,070,013	1,014,100	-	-	1,070,013	1,014,100
Culture and recreation.....	1,403,463	1,333,258	-	-	1,403,463	1,333,258
Community development.....	877,373	746,112	-	-	877,373	746,112
Debt service - interest.....	917,259	418,529	-	-	917,259	418,529
Golf course.....	-	-	2,446,234	2,073,907	2,446,234	2,073,907
Transfer station.....	-	-	1,387,605	1,346,123	1,387,605	1,346,123
Total expenses.....	37,122,165	35,468,462	3,833,839	3,420,030	40,956,004	38,888,492
Change in net assets.....	3,202,096	1,714,112	587,139	632,149	3,789,235	2,346,261
Net assets - beginning of year.....	70,458,668	68,744,556	11,992,801	11,360,652	82,451,469	80,105,208
Net assets - end of year.....	<u>\$ 73,660,764</u>	<u>\$ 70,458,668</u>	<u>\$ 12,579,940</u>	<u>\$ 11,992,801</u>	<u>\$ 86,240,704</u>	<u>\$ 82,451,469</u>

Governmental activities increased the Town's net assets by \$3,202,096, accounting for 84.5% of the total growth in net assets. In the prior year, governmental activities increased the Town's net assets by \$1,714,112. The key element of this change is the receipt of capital grants and contributions related to land purchases made by the community preservation fund.

Business-type activities increased the Town's net assets by \$587,139, accounting for 15.5% of the total growth in net assets. In the prior year, business-type activities increased the Town's net assets by \$632,149.

Fund Financial Statement Analysis

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

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$8,904,299 a decrease of \$3,893,829 in comparison with the prior year. Approximately 78.3% of this total amount (\$6,973,000) represents undesignated fund balance of the general fund, operating and capital stabilization funds (major funds), nonmajor special revenue funds and permanent funds. The community preservation fund (major fund) and capital projects funds' deficits totaling \$1,408,168 and \$166,367, respectively, will be funded by the issuance of long-term debt in future fiscal years. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders (\$2,329,885)
- Perpetual permanent funds (\$356,461)
- Other specific purposes (\$372,389)
- Fund a portion of the fiscal year 2007 operating budget (\$447,533)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$1,479,869, while total fund balance was \$4,257,287. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 4.0% of total general fund expenditures, while total fund balance represents 11.6% of that same amount.

The balance of the Town's general fund decreased \$938,291 during fiscal year 2006. This is primarily attributable to the Town's use of reserves for spending in fiscal year 2006.

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the operating stabilization fund (special revenue) increased by \$317,801 during the current fiscal year. This is attributable to transfers from the general fund and investment income. The fund balance of the operating stabilization fund at June 30, 2006, totals \$1,802,830, which represents 4.9% of general fund expenditures.

The fund balance of the capital stabilization fund (special revenue) decreased by \$299,617 during the current fiscal year. This is primarily attributable to net transfers to and from the general fund. The fund balance of the capital stabilization fund at June 30, 2006, totals \$879,303, which represents 2.4% of general fund expenditures.

The fund balance of the community preservation fund (special revenue) decreased by \$2,299,965 during the current fiscal year. This is primarily attributable to land purchases that were made in advance of long-term bond proceeds. The fund deficit of \$1,408,168 will be funded by the issuance of long-term debt in future fiscal years.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the golf course and transfer station enterprise funds at the end of the year amounted to \$1,429,873 and \$876,674, respectively. The golf course fund had an increase in net assets for the year of \$339,145 and the transfer station fund had an increase of \$247,994. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town’s business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$40,696,370 was increased by \$3,101,614 (7.6%) during the fiscal year. The following table summarizes the increase:

Purpose	Amount	Funding Source
Capital outlay.....	\$ 902,213	Undesignated fund balance
Various supplements to the fiscal year 2006 operating budget.....	602,659	Undesignated fund balance
Capital outlay.....	500,000	Transfer from capital stabilization (major fund)
Transfer to the operating stabilization fund.....	250,000	Undesignated fund balance
Capital outlay.....	235,825	Golf course capital improvements fund
Capital outlay.....	160,000	Transfer from special revenue - ambulance
Transfer to the capital stabilization fund.....	150,000	Undesignated fund balance
Dr. Bottero Road repair.....	65,000	Undesignated fund balance
IAFF Permanent Firefighters Local 2583.....	46,190	Undesignated fund balance
Capital outlay.....	42,872	Transfer from special revenue - cable
Consultant related to Dennis-Yarmouth Regional School District.....	30,000	Undesignated fund balance
Dredging of Sesuit Harbor.....	30,000	Transfer from capital projects - Bass River
Promote tourism.....	25,000	Undesignated fund balance
Bass River.....	15,000	Undesignated fund balance
Automatic external defibrilators.....	13,175	Undesignated fund balance
Capital outlay.....	12,500	Transfer from special revenue - waterways
Classification and compensation study.....	10,000	Undesignated fund balance
Fuel assistance.....	10,000	Undesignated fund balance
Accept Strawberry Lane as a Town way.....	1,026	Undesignated fund balance
Prior years' unpaid bills.....	<u>154</u>	Undesignated fund balance
Total increase.....	<u>\$ 3,101,614</u>	

During the year, general fund revenues and transfers out exceeded budgetary estimates; and expenditures were less than budgetary estimates, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$4,739,000. Of this amount, approximately \$2,330,000 is being encumbered and carried forward to fiscal year 2007.

Capital Asset and Debt Administration

Capital assets

The Town’s investment in capital assets for its governmental and business-type activities at the end of the fiscal year totaled \$93,002,693 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, machinery and equipment and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled 5.5%, which consisted of a 5.6% increase for governmental activities and a 0.1% decrease for business-type activities.

Major capital asset events that occurred during the current fiscal year include the following:

- Purchases of land (\$3,725,000)
- Library construction in progress (\$943,000)
- Various harbor construction in progress (\$693,000)
- Police Station construction in progress (\$445,000)

- Various machinery and equipment purchases – governmental activities (\$476,000)
- Roadways and drainage (\$463,000)
- Various machinery and equipment purchases – golf course (\$237,000)

The following table summarizes the Town’s capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Land.....	\$ 53,122,464	\$ 49,397,464	\$ 6,964,635	\$ 6,964,635	\$ 60,087,099	\$ 56,362,099
Construction in progress.....	3,926,531	1,846,380	-	-	3,926,531	1,846,380
Land improvements.....	906,985	931,879	2,155,046	2,285,038	3,062,031	3,216,917
Buildings.....	8,406,999	8,695,344	1,603,710	1,663,639	10,010,709	10,358,983
Machinery and equipment....	1,575,725	1,477,816	473,043	342,493	2,048,768	1,820,309
Infrastructure.....	13,850,596	14,505,824	16,959	18,372	13,867,555	14,524,196
Total capital assets.....	\$ 81,789,300	\$ 76,854,707	\$ 11,213,393	\$ 11,274,177	\$ 93,002,693	\$ 88,128,884

Additional information on the Town’s capital assets can be found in Note 5 on pages 42-43 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$19,412,073, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
General obligation bonds....	\$ 17,685,000	\$ 19,696,700	\$ 940,000	\$ 1,175,000	\$ 18,625,000	\$ 20,871,700
MWPAT notes.....	787,073	717,490	-	-	787,073	717,490
Total bonds and notes.....	\$ 18,472,073	\$ 20,414,190	\$ 940,000	\$ 1,175,000	\$ 19,412,073	\$ 21,589,190

The Town’s total bonded debt decreased by \$2,177,117, or 10.1%, during the current fiscal year, with new debt issuances totaling \$100,000 for MWPAT notes related to the septic loan program.

The Town has an AA rating from Standard & Poors.

Additional information on the Town’s long-term debt can be found in Note 8 on pages 45-48 of this report.

Economic Factors and Next Year’s Budgets and Rates

National/State Economy: As it relates to the preparation of municipal budgets and the development of long range financial planning, communities on Cape Cod are more cognizant of the national and state economies than most Massachusetts mainland communities. Service industry (restaurants, hotels/motels) and retail trade constitute the major business/employment activities in Dennis and the Cape Cod region, and many of these businesses. It is generally regarded that travel and entertainment is discretionary household spending. A robust economy produces more disposable household spending, including the travel and entertainment sectors, and less spending occurs in these sectors in a flat or recessionary economy. Over thirty percent (30%) of local revenue raised by the Town of Dennis that supports operating budget and capital spending is related to travel and entertainment (hotel/motel tax revenue, golf and beach revenue). We continue to stress to our financial banking

and auditing partners, and our bond shareholders that we closely monitor national and state economic forecasts when developing our overall spending plan and also during the year to insure that our goals will be met.

Inflationary Trends: National and regional trends in such spending sectors as utilities, health insurance, pension benefits and utility costs are also closely monitored and taken into account when forecasting expenditures for an upcoming budget year and beyond. Utility costs (heating, electrical and vehicle fuel) have wildly fluctuated as national and worldwide activities directly affect their pricing. While these sectors are generally out of our control, we nevertheless recognize their volatility and budget accordingly. For fiscal year 2008, we are continuing to fund these costs many times higher than the consumer price index for other areas of spending. Similarly, health insurance costs have trended upward during the past several years at an average rate of 15% per year. While the health care sector is likewise a national problem that requires federal legislative action, prior Town action to eliminate the indemnity insurance plan, combined with encouraging employees to enroll in more cost containment/ management health maintenance organization (HMO) and preferred provider organization (PPO) plans, have resulted in savings, or "cost avoidance" to the Town and its employees. Lastly, pension costs have increased 8-10% annually, as a combination of investment losses and paying down the system's unfunded liability result in increased assessments beyond normal cost-of-living adjustments.

State Financial Assistance: After several years of cuts in state financial assistance to cities, towns and school districts in the early 2000's, the Town and the Dennis-Yarmouth Regional School District has seen modest increase in state financial assistance. State Aid to Dennis (Town side) reflects less than one percent (1%) of its total Town budget, though for the School District it represents slightly under twenty percent (20%) of its total school budget. While we are not forecasting any increase in new state aid, we do not project any cuts in current funding. Regardless of this additional assistance, we will continue to explore ways to expand the collection of local revenues, in conjunction with limited increases in existing local fees, in an attempt to minimize the volatility of state aid to Dennis.

Taxpayer/Tax Rate Impact: Proposition 2 ½ limits the amount of taxes that can be assessed to property owners to support the operating budget and capital spending of the Town and the Dennis-Yarmouth School District. The Town develops its operating budget based on existing available revenues with no anticipated voter support of an override.

For the past several years, Dennis officials have raised fees throughout its various departments as a means to maintain it's current level of services. However, as we are witnessing more and more Proposition 2 ½ override ballot questions in our neighboring communities, these marginal fee increases do not address double digit inflationary increases in our fixed costs (see Inflationary Trends) and wage increases to our workforce. And increasing our revenue estimates to more reflect actual revenue collections has the unavoidable impact of affecting the amount of Free Cash is available to fund traditional expenses related to capital improvements. Unless new sources or revenue are developed, Dennis officials will have no choice but to seek voter support for additional taxing authority, or reduce spending levels that result in significant reductions in municipal services or maintenance of the Town's capital infrastructure.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Town Administrator, 485 Main Street, South Dennis, MA 02260.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 10,630,580	\$ 2,462,537	\$ 13,093,117
Restricted cash and cash equivalents.....	2,321,301	-	2,321,301
Investments.....	444,918	-	444,918
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	473,130	-	473,130
Tax and utility liens.....	758,854	-	758,854
Motor vehicle and other excise taxes.....	421,589	-	421,589
Landbank surcharges.....	8,694	-	8,694
User charges.....	281,245	64,860	346,105
Special assessments.....	116,650	-	116,650
Departmental and other.....	14,067	-	14,067
Intergovernmental.....	273,242	-	273,242
Tax foreclosures.....	78,125	-	78,125
Total current assets.....	15,822,395	2,527,397	18,349,792
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	6,023	-	6,023
Special assessments.....	430,950	-	430,950
Capital assets not being depreciated.....	57,048,995	6,964,635	64,013,630
Capital assets, net of accumulated depreciation.....	24,740,305	4,248,758	28,989,063
Total noncurrent assets.....	82,226,273	11,213,393	93,439,666
Total assets.....	98,048,668	13,740,790	111,789,458
LIABILITIES			
Current liabilities:			
Warrants payable.....	216,180	78,807	294,987
Accrued payroll.....	293,541	35,277	328,818
Other liabilities.....	173,929	-	173,929
Abandoned property.....	4,355	-	4,355
Accrued interest.....	167,528	20,841	188,369
Compensated absences.....	74,311	8,593	82,904
Short-term notes payable.....	4,317,195	-	4,317,195
Long-term bonds and notes payable.....	2,025,417	235,000	2,260,417
Total current liabilities.....	7,272,456	378,518	7,650,974
Noncurrent liabilities:			
Compensated absences.....	668,792	77,332	746,124
Long-term bonds and notes payable.....	16,446,656	705,000	17,151,656
Total noncurrent liabilities.....	17,115,448	782,332	17,897,780
Total liabilities.....	24,387,904	1,160,850	25,548,754
NET ASSETS			
Invested in capital assets, net of related debt.....	59,787,105	10,273,393	70,060,498
Restricted for:			
Permanent funds:			
Expendable.....	88,948	-	88,948
Nonexpendable.....	356,461	-	356,461
Other specific purposes.....	372,389	-	372,389
Unrestricted.....	13,055,861	2,306,547	15,362,408
Total net assets.....	\$ 73,660,764	\$ 12,579,940	\$ 86,240,704

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 4,507,063	\$ 1,203,959	\$ 573,324	\$ -	\$ (2,729,780)
Public safety.....	10,414,974	2,126,544	208,332	290,000	(7,790,098)
Education.....	13,577,054	-	-	-	(13,577,054)
Public works.....	4,354,966	29,071	12,030	519,211	(3,794,654)
Health and human services.....	1,070,013	310,198	67,226	-	(692,589)
Culture and recreation.....	1,403,463	1,303,084	38,738	-	(61,641)
Community development.....	877,373	-	1,080,593	-	203,220
Land purchases.....	-	-	-	1,619,819	1,619,819
Debt service - interest.....	917,259	-	-	-	(917,259)
Total governmental activities.....	<u>37,122,165</u>	<u>4,972,856</u>	<u>1,980,243</u>	<u>2,429,030</u>	<u>(27,740,036)</u>
Business-type activities:					
Golf course.....	2,446,234	2,785,379	-	-	339,145
Transfer station.....	1,387,605	1,635,599	-	-	247,994
Total business-type activities.....	<u>3,833,839</u>	<u>4,420,978</u>	<u>-</u>	<u>-</u>	<u>587,139</u>
Total primary government.....	<u>\$ 40,956,004</u>	<u>\$ 9,393,834</u>	<u>\$ 1,980,243</u>	<u>\$ 2,429,030</u>	<u>\$ (27,152,897)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/ revenue (from previous page).....	\$ (27,740,036)	\$ 587,139	\$ (27,152,897)
<i>General revenues:</i>			
Real estate, personal property taxes and tax liens.....	26,488,638	-	26,488,638
Motor vehicle and other excise taxes.....	2,149,102	-	2,149,102
Hotel/motel taxes.....	424,615	-	424,615
Penalties and interest on taxes.....	180,267	-	180,267
Community preservation surcharges.....	777,804	-	777,804
Grants and contributions not restricted to specific programs.....	613,757	-	613,757
Unrestricted investment income.....	290,072	-	290,072
Other.....	17,877	-	17,877
Total general revenues.....	<u>30,942,132</u>	<u>-</u>	<u>30,942,132</u>
Change in net assets.....	3,202,096	587,139	3,789,235
Net assets - beginning of year.....	<u>70,458,668</u>	<u>11,992,801</u>	<u>82,451,469</u>
Net assets - end of year.....	<u>\$ 73,660,764</u>	<u>\$ 12,579,940</u>	<u>\$ 86,240,704</u>

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

ASSETS	General	Operating Stabilization	Capital Stabilization	Community Preservation
Cash and cash equivalents.....	\$ 4,705,834	\$ 1,802,830	\$ 879,303	\$ -
Investments.....	-	-	-	-
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	473,130	-	-	-
Real estate tax deferrals.....	6,023	-	-	-
Tax liens.....	758,854	-	-	-
Motor vehicle and other excise taxes.....	421,589	-	-	-
Community preservation surcharges.....	-	-	-	8,694
User charges.....	-	-	-	-
Special assessments.....	-	-	-	-
Departmental and other.....	11,395	-	-	-
Intergovernmental.....	-	-	-	-
Tax foreclosures.....	78,125	-	-	-
Restricted assets:				
Cash and cash equivalents.....	-	-	-	2,191,832
TOTAL ASSETS.....	\$ 6,454,950	\$ 1,802,830	\$ 879,303	\$ 2,200,526
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 216,180	\$ -	\$ -	\$ -
Accrued payroll.....	293,541	-	-	-
Other liabilities.....	173,929	-	-	-
Abandoned property.....	4,355	-	-	-
Deferred revenue.....	1,509,658	-	-	8,694
Short-term notes payable.....	-	-	-	3,600,000
TOTAL LIABILITIES.....	2,197,663	-	-	3,608,694
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	2,329,885	-	-	-
Perpetual permanent funds.....	-	-	-	-
Other specific purposes.....	-	-	-	-
Unreserved:				
Designated for subsequent year's expenditures.....	447,533	-	-	-
Undesignated, reported in:				
General fund.....	1,479,869	-	-	-
Special revenue funds.....	-	1,802,830	879,303	(1,408,168)
Capital projects funds.....	-	-	-	-
Permanent funds.....	-	-	-	-
TOTAL FUND BALANCES.....	4,257,287	1,802,830	879,303	(1,408,168)
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 6,454,950	\$ 1,802,830	\$ 879,303	\$ 2,200,526

See notes to basic financial statements.

	Nonmajor Governmental Funds		Total Governmental Funds
\$	3,242,613	\$	10,630,580
	444,918		444,918
	-		473,130
	-		6,023
	-		758,854
	-		421,589
	-		8,694
	281,245		281,245
	547,600		547,600
	2,672		14,067
	273,242		273,242
	-		78,125
	<u>129,469</u>		<u>2,321,301</u>
\$	<u>4,921,759</u>	\$	<u>16,259,368</u>

\$	-	\$	216,180
	-		293,541
	-		173,929
	-		4,355
	831,517		2,349,869
	717,195		4,317,195
	<u>1,548,712</u>		<u>7,355,069</u>

	-		2,329,885
	356,461		356,461
	372,389		372,389
	-		447,533
	-		1,479,869
	2,721,616		3,995,581
	(166,367)		(166,367)
	<u>88,948</u>		<u>88,948</u>
	<u>3,373,047</u>		<u>8,904,299</u>
\$	<u>4,921,759</u>	\$	<u>16,259,368</u>

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General	Operating Stabilization	Capital Stabilization	Community Preservation
REVENUES				
Real estate and personal property taxes.....	\$ 26,467,156	\$ -	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,144,405	-	-	-
Hotel/motel tax.....	424,615	-	-	-
Tax liens.....	29,417	-	-	-
Community preservation surcharges.....	-	-	-	792,070
Charges for services.....	-	-	-	-
Intergovernmental	922,929	-	-	1,258,958
Special assessments.....	-	-	-	-
Penalties and interest on taxes.....	166,797	-	-	3,102
Licenses, permits and fees.....	2,982,351	-	-	-
Fines and forfeitures.....	71,902	-	-	-
Departmental.....	69,096	-	-	-
Contributions.....	-	-	-	299,870
Investment income.....	239,689	67,801	50,383	60,991
TOTAL REVENUES.....	33,518,357	67,801	50,383	2,414,991
EXPENDITURES				
Current:				
General government.....	3,271,234	-	-	-
Public safety.....	8,179,138	-	-	-
Education.....	13,577,054	-	-	-
Public works.....	2,887,447	-	-	-
Health and human services.....	627,995	-	-	-
Culture and recreation.....	1,210,882	-	-	-
Community development.....	-	-	-	21,479
Land purchases.....	-	-	-	3,725,000
Pension benefits.....	1,223,666	-	-	-
Employee benefits.....	1,714,977	-	-	-
Property and liability insurance.....	282,523	-	-	-
State and county charges.....	598,322	-	-	-
Debt service:				
Principal.....	2,042,117	-	-	-
Interest.....	1,015,559	-	-	-
TOTAL EXPENDITURES.....	36,630,914	-	-	3,746,479
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,112,557)	67,801	50,383	(1,331,488)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	2,588,277	250,000	150,000	12,906
Proceeds of bonds and notes.....	-	-	-	-
Transfers out.....	(414,011)	-	(500,000)	(981,383)
TOTAL OTHER FINANCING SOURCES (USES).....	2,174,266	250,000	(350,000)	(968,477)
NET CHANGE IN FUND BALANCES.....	(938,291)	317,801	(299,617)	(2,299,965)
FUND BALANCES AT BEGINNING OF YEAR.....	5,195,578	1,485,029	1,178,920	891,797
FUND BALANCES AT END OF YEAR.....	\$ 4,257,287	\$ 1,802,830	\$ 879,303	\$ (1,408,168)

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 26,467,156
29,717	2,174,122
-	424,615
-	29,417
-	792,070
866,564	866,564
2,174,083	4,355,970
132,242	132,242
10,368	180,267
662,256	3,644,607
-	71,902
30,564	99,660
172,778	472,648
35,306	454,170
<u>4,113,878</u>	<u>40,165,410</u>
203,781	3,475,015
1,085,632	9,264,770
-	13,577,054
534,583	3,422,030
101,267	729,262
1,000,689	2,211,571
855,894	877,373
-	3,725,000
-	1,223,666
-	1,714,977
-	282,523
-	598,322
-	2,042,117
-	1,015,559
<u>3,781,846</u>	<u>44,159,239</u>
<u>332,032</u>	<u>(3,993,829)</u>
1,105	3,002,288
100,000	100,000
<u>(1,106,894)</u>	<u>(3,002,288)</u>
<u>(1,005,789)</u>	<u>100,000</u>
(673,757)	(3,893,829)
<u>4,046,804</u>	<u>12,798,128</u>
<u>\$ 3,373,047</u>	<u>\$ 8,904,299</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Total governmental fund balances (page 19).....	\$	8,904,299
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		81,789,300
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		2,349,869
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(167,528)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....		(18,472,073)
Compensated absences.....		<u>(743,103)</u>
Net assets of governmental activities (page 15).....	\$	<u><u>73,660,764</u></u>

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**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 21)..... \$ (3,893,829)

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. These amounts represent the related activity of the current period.

Capital outlays.....	6,744,016
Depreciation.....	(1,809,423)

Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

158,851

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.

Bond proceeds.....	(100,000)
Bond maturities.....	2,042,117

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....

98,300

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

This amount represents the net change:

Compensated absences.....	(37,936)
---------------------------	----------

Changes in net assets of governmental activities (page 17)..... \$ 3,202,096

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Golf</u>	<u>Transfer</u>	<u>Total</u>
	<u>Course</u>	<u>Station</u>	
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 1,552,103	\$ 910,434	\$ 2,462,537
Receivables, net of allowance for uncollectible amounts:			
User charges.....	-	64,860	64,860
Total current assets.....	<u>1,552,103</u>	<u>975,294</u>	<u>2,527,397</u>
Noncurrent assets:			
Capital assets not being depreciated.....	6,722,807	241,828	6,964,635
Capital assets, net of accumulated depreciation.....	<u>3,773,883</u>	<u>474,875</u>	<u>4,248,758</u>
Total noncurrent assets.....	<u>10,496,690</u>	<u>716,703</u>	<u>11,213,393</u>
Total assets.....	<u>12,048,793</u>	<u>1,691,997</u>	<u>13,740,790</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	10,669	68,138	78,807
Accrued payroll.....	27,304	7,973	35,277
Accrued interest.....	20,841	-	20,841
Compensated absences.....	6,342	2,251	8,593
Long-term bonds and notes payable.....	<u>235,000</u>	<u>-</u>	<u>235,000</u>
Total current liabilities.....	<u>300,156</u>	<u>78,362</u>	<u>378,518</u>
Noncurrent liabilities:			
Compensated absences.....	57,074	20,258	77,332
Long-term bonds and notes payable.....	<u>705,000</u>	<u>-</u>	<u>705,000</u>
Total noncurrent liabilities.....	<u>762,074</u>	<u>20,258</u>	<u>782,332</u>
Total liabilities.....	<u>1,062,230</u>	<u>98,620</u>	<u>1,160,850</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	9,556,690	716,703	10,273,393
Unrestricted.....	<u>1,429,873</u>	<u>876,674</u>	<u>2,306,547</u>
Total net assets.....	<u>\$ 10,986,563</u>	<u>\$ 1,593,377</u>	<u>\$ 12,579,940</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Golf Course</u>	<u>Transfer Station</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services.....	\$ 2,567,967	\$ 1,635,599	\$ 4,203,566
Other.....	217,412	-	217,412
TOTAL OPERATING REVENUES.....	2,785,379	1,635,599	4,420,978
OPERATING EXPENSES			
Cost of service and administration.....	2,084,437	805,734	2,890,171
Tipping fees.....	-	480,008	480,008
Repairs and maintenance.....	58,360	33,455	91,815
Depreciation.....	251,686	35,158	286,844
TOTAL OPERATING EXPENSES.....	2,394,483	1,354,355	3,748,838
OPERATING INCOME (LOSS).....	390,896	281,244	672,140
NONOPERATING REVENUES (EXPENSES)			
Interest expense.....	(51,751)	-	(51,751)
Gain (loss) on disposal of capital assets.....	-	(33,250)	(33,250)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(51,751)	(33,250)	(85,001)
CHANGE IN NET ASSETS.....	339,145	247,994	587,139
NET ASSETS AT BEGINNING OF YEAR.....	10,647,418	1,345,383	11,992,801
NET ASSETS AT END OF YEAR.....	\$ 10,986,563	\$ 1,593,377	\$ 12,579,940

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-Type Activities - Enterprise Funds		
	Golf Course	Transfer Station	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 2,785,379	\$ 1,570,739	\$ 4,356,118
Payments to vendors.....	(1,135,342)	(924,437)	(2,059,779)
Payments to employees.....	(1,005,139)	(401,320)	(1,406,459)
NET CASH FROM OPERATING ACTIVITIES.....	644,898	244,982	889,880
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets.....	(259,310)	-	(259,310)
Principal payments on bonds and notes.....	(235,000)	-	(235,000)
Interest expense.....	(56,694)	-	(56,694)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(551,004)	-	(551,004)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	93,894	244,982	338,876
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,458,209	665,452	2,123,661
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 1,552,103	\$ 910,434	\$ 2,462,537
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 390,896	\$ 281,244	\$ 672,140
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	251,686	35,158	286,844
Changes in assets and liabilities:			
User charges.....	-	(64,860)	(64,860)
Warrants payable.....	(9,510)	(11,247)	(20,757)
Accrued payroll.....	5,682	1,872	7,554
Accrued compensated absences.....	6,144	2,815	8,959
Total adjustments.....	254,002	(36,262)	217,740
NET CASH FROM OPERATING ACTIVITIES.....	\$ 644,898	\$ 244,982	\$ 889,880

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

ASSETS	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ -	\$ 442,130
Investments.....	113,456	-
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	-	13,866
Total assets.....	<u>113,456</u>	<u>455,996</u>
 LIABILITIES		
Other liabilities.....	-	14,958
Liabilities due depositors.....	-	441,038
Total liabilities.....	<u>-</u>	<u>455,996</u>
 NET ASSETS		
Held in trust for other purposes.....	<u>\$ 113,456</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private donations.....	\$ 2,737
Net investment income:	
Interest.....	<u>6,479</u>
TOTAL ADDITIONS.....	9,216
DEDUCTIONS	
Other.....	<u>4,152</u>
CHANGE IN NET ASSETS.....	5,064
NET ASSETS AT BEGINNING OF YEAR.....	<u>108,392</u>
NET ASSETS AT END OF YEAR.....	<u><u>\$ 113,456</u></u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The Town of Dennis, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town’s basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in two joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the Town’s joint ventures and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2006 Assessment</u>
Dennis-Yarmouth Regional School District	To provide educational services	296 Station Avenue Yarmouth, MA 02661	\$ 12,282,263
Cape Cod Regional Technical High School	To provide educational services	351 Pleasant Lake Avenue Harwich, MA 02645	\$ 1,234,791

The Dennis-Yarmouth Regional School District (District) is governed by a seven-member school committee consisting of three elected representatives from the Town. The Town is indirectly liable for the District’s debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

The Cape Cod Regional Technical High School (School) is governed by a twenty-one member school committee consisting of two appointed representatives from the Town. The Town is indirectly liable for the School’s debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the School at the address identified above.

Jointly Governed Organizations

The Board of Selectmen is responsible for appointing two of the five members of the Board of Managers (responsible for making recommendations relative to budgeting and financing) for the Yarmouth-Dennis Septage Treatment Plant. The Town's accountability for this organization does not extend beyond making these appointments.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement activities) report information on all non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Fiduciary funds are reported by fund type.

D. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide and enterprise fund financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that is restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that is restricted to meeting the capital requirements of a specific function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental funds financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60-days after the end of the fiscal year. Investment income is susceptible to accrual. Other receipts and tax revenues 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.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *operating stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves. Use of this fund is subject to Town Meeting approval.

The *capital stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide capital reserves. Use of this fund is subject to Town Meeting approval.

The *community preservation fund* is a special revenue fund used to account for the 3% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. This fund was adopted by the Town under the Community Preservation Act effective July 1, 2005, and in effect replaces the landbank fund, which was reported as a major fund in prior fiscal years.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than capital projects funds or permanent funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *golf course enterprise fund* is used to account for the activities related to the municipal golf course.

The *transfer station enterprise fund* is used to account for the activities related to trash removal.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government's programs.

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist mainly of performance bonds and bid deposits. Agency funds do not present the results of operations or have a measurement focus.

E. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on November 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date.

Real estate tax liens are processed annually after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle and Other Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

Community Preservation Surcharges

Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on November 1st and May 1st and is subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges would be included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

User Charges

User charges represent ambulance and transfer station services provided to the Town's citizenry and are levied when the service is provided.

Special Assessments

The Town assesses residents for improvements to streets and septic systems through betterments which are due, (with interest) over a period of 20 years. Special assessments are recorded as receivables in the year the improvements are made.

Departmental and Other

Departmental and other receivables consist of various departmental activities and are recorded as receivables in the fiscal year accrued.

Intergovernmental

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

G. Allowance for Uncollectible Amounts

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- User charges
- Departmental and other

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax liens
- Community preservation surcharges
- Special assessments

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements and therefore are not reported.

I. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, land improvements, buildings, machinery and equipment and infrastructure (e.g., roads and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	Estimated Useful Life (in years)
Land improvements.....	20 - 40
Buildings.....	40
Machinery and equipment.....	5
Infrastructure.....	20 - 40

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

K. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

L. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

M. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

N. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been “restricted” for the following:

“Permanent funds – expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds – nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

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

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2007 operating budget.

O. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

P. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from proprietary funds is voluntarily assigned and transferred to the general fund.

Q. *Compensated Absences*

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations.

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

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's 60% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2006, this expenditure totaled approximately \$431,000. There were approximately 90 participants eligible to receive benefits at June 30, 2006.

S. *Use of Estimates***Government-Wide and Fund Financial Statements**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

T. *Total Column***Government-Wide Financial Statements**

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

Fund Financial Statements

The total column 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 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases to the original budget subsequent to Annual Town Meeting require Special Town Meeting approval.

The majority of 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. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2006 approved budget for the general fund authorized \$40,696,370 in appropriations and other amounts to be raised. During fiscal year 2006, supplemental appropriations totaling \$3,101,614 were authorized.

The Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

The budgetary comparison schedules presented in the accompanying supplementary information presents comparisons of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

NOTE 3 - DEPOSITS AND INVESTMENTS

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds and private purpose trust funds are held separately from other Town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy is to collateralize a portion of their uninsured deposits. As of June 30, 2006, \$3,898,359 of the Town's deposits of \$15,524,175 was exposed to custodial credit risk because they were either uninsured or uncollateralized.

Investments Summary

The Town's investments at June 30, 2006 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 - 5
<u>Debt Securities:</u>			
U.S. Agencies.....	\$ 528,810	\$ 58,631	\$ 470,179
Money market mutual funds.....	14,672	14,672	-
Total debt securities.....	543,482	\$ 73,303	\$ 470,179
<u>Other Investments:</u>			
External investment pools.....	754,337		
Equity securities.....	29,564		
Total other investments.....	783,901		
Total investments.....	\$ 1,327,383		

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's policy is to insure each of their investments. As of June 30, 2006, the Town's investments were not exposed to custodial credit because they were insured.

Investments - Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2006, the Town's investment in money market mutual funds was unrated by a national credit rating organization.

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The Town does not have a policy for foreign currency risk. As of June 30, 2006, the Town's investments were not exposed to foreign currency risk.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town’s investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2006, the Town’s investments were not exposed to concentration of credit risk because none of their investments with a single issuer represented 5 percent or more of the Town’s total investments or fund balances/net assets of governmental activities, business-type activities, individual major funds, nonmajor funds in the aggregate, or fiduciary fund types.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2006, receivables for the individual major governmental funds, and nonmajor governmental and fiduciary funds, in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 529,226	\$ (56,096)	\$ 473,130
Real estate tax deferrals.....	6,023	-	6,023
Tax liens.....	758,854	-	758,854
Motor vehicle and other excise taxes.....	665,696	(244,107)	421,589
Community preservation surcharges.....	8,694	-	8,694
User charges.....	432,867	(151,622)	281,245
Special assessments.....	547,600	-	547,600
Departmental and other.....	27,933	-	27,933
Intergovernmental.....	273,242	-	273,242
	<u>\$ 3,250,135</u>	<u>\$ (451,825)</u>	<u>\$ 2,798,310</u>

At June 30, 2006, receivables for the golf and transfer station enterprise funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
User charges.....	\$ 64,860	\$ -	\$ 64,860

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

<u>Receivable type:</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Real estate and personal property taxes.....	\$ 233,672	\$ -	\$ 233,672
Real estate tax deferrals.....	6,023	-	6,023
Tax liens.....	758,854	-	758,854
Motor vehicle and other excise taxes.....	421,589	-	421,589
Community preservation surcharges.....	-	8,694 (a)	8,694
User charges.....	-	281,245 (b)	281,245
Special assessments.....	-	547,600 (b)	547,600
Departmental and other.....	11,395	2,672	14,067
Tax foreclosures.....	78,125	-	78,125
 Total.....	 <u>\$ 1,509,658</u>	 <u>\$ 840,211</u>	 <u>\$ 2,349,869</u>

- (a) Community preservation fund (major fund)
- (b) Nonmajor governmental funds

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 49,397,464	\$ 3,725,000	\$ -	\$ 53,122,464
Construction in progress.....	1,846,380	2,080,151	-	3,926,531
Total capital assets not being depreciated.....	<u>51,243,844</u>	<u>5,805,151</u>	<u>-</u>	<u>57,048,995</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,173,586	-	-	1,173,586
Buildings.....	12,191,418	-	-	12,191,418
Machinery and equipment.....	6,348,994	475,865	(63,505)	6,761,354
Infrastructure.....	44,367,568	463,000	-	44,830,568
Total capital assets being depreciated.....	<u>64,081,566</u>	<u>938,865</u>	<u>(63,505)</u>	<u>64,956,926</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(241,707)	(24,894)	-	(266,601)
Buildings.....	(3,496,074)	(288,345)	-	(3,784,419)
Machinery and equipment.....	(4,871,178)	(377,956)	63,505	(5,185,629)
Infrastructure.....	(29,861,744)	(1,118,228)	-	(30,979,972)
Total accumulated depreciation.....	<u>(38,470,703)</u>	<u>(1,809,423)</u>	<u>63,505</u>	<u>(40,216,621)</u>
Total capital assets being depreciated, net.....	<u>25,610,863</u>	<u>(870,558)</u>	<u>-</u>	<u>24,740,305</u>
Total governmental activities capital assets, net.....	<u>\$ 76,854,707</u>	<u>\$ 4,934,593</u>	<u>\$ -</u>	<u>\$ 81,789,300</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 6,964,635	\$ -	\$ -	\$ 6,964,635
<u>Capital assets being depreciated:</u>				
Land improvements.....	4,420,058	22,308	-	4,442,366
Buildings.....	2,422,035	-	-	2,422,035
Machinery and equipment.....	3,112,615	237,002	(39,900)	3,309,717
Infrastructure.....	25,000	-	-	25,000
Total capital assets being depreciated.....	<u>9,979,708</u>	<u>259,310</u>	<u>(39,900)</u>	<u>10,199,118</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(2,135,020)	(152,300)	-	(2,287,320)
Buildings.....	(758,396)	(59,929)	-	(818,325)
Machinery and equipment.....	(2,770,122)	(73,202)	6,650	(2,836,674)
Infrastructure.....	(6,628)	(1,413)	-	(8,041)
Total accumulated depreciation.....	<u>(5,670,166)</u>	<u>(286,844)</u>	<u>6,650</u>	<u>(5,950,360)</u>
Total capital assets being depreciated, net.....	<u>4,309,542</u>	<u>(27,534)</u>	<u>(33,250)</u>	<u>4,248,758</u>
Total business-type activities capital assets, net.....	<u>\$ 11,274,177</u>	<u>\$ (27,534)</u>	<u>\$ (33,250)</u>	<u>\$ 11,213,393</u>

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

Governmental Activities:

General government.....	\$ 88,368
Public safety.....	350,312
Public works.....	1,263,697
Health and human services.....	34,258
Culture and recreation.....	<u>72,788</u>
Total depreciation expense - governmental activities.....	<u>\$ 1,809,423</u>

Business-Type Activities:

Golf.....	\$ 251,686
Transfer Station.....	<u>35,158</u>
Total depreciation expense - business-type activities.....	<u>\$ 286,844</u>

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2006, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Operating Stabilization Fund	Capital Stabilization Fund	Community Preservation Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ 250,000	\$ 150,000	\$ 12,906	\$ 1,105	\$ 414,011 (1)
Capital Stabilization Fund.....	500,000	-	-	-	-	500,000 (2)
Community Preservation Fund.....	981,383	-	-	-	-	981,383 (3)
Nonmajor Governmental Funds.....	1,106,894	-	-	-	-	1,106,894 (4)
	<u>\$ 2,588,277</u>	<u>\$ 250,000</u>	<u>\$ 150,000</u>	<u>\$ 12,906</u>	<u>\$ 1,105</u>	<u>\$ 3,002,288</u>

(1) Represents budgeted transfers to the operating stabilization fund (\$250,000) and capital stabilization fund (\$150,000); the return of surplus community preservation funds previously transferred to the general fund (\$12,906); and the return of surplus septic funds previously transferred to the general fund (\$1,105)

(2) Represents budgeted transfers to the general fund to fund the fiscal year 2006 budget

(3) Represents budgeted transfers to the general fund to fund debt service expenditures related to the community preservation fund

(4) Represents budgeted transfers to the general fund to fund the fiscal year 2006 budget from the ambulance fund (\$860,000), mediaone cable fund (\$102,872), waterways fund (\$32,500), septic fund (\$31,522), cemetery lots fund (\$30,000), Bass River main channel dredge fund (\$30,000) and cemetery perpetual care fund (\$20,000)

NOTE 7 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2006, is as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2005	Increases	Decreases	Balance at June 30, 2006
SAN	Chapter 90.....	06/28/05	07/28/05	2.70%	\$ 126,228	\$ -	\$ (126,228)	\$ -
SAN	Chapter 90.....	06/30/06	09/29/06	3.76%	-	217,195	-	217,195
BAN	Police station.....	11/01/05	11/01/06	3.40%	-	500,000	-	500,000
BAN	Land acquisition.....	12/20/05	07/28/06	3.49%	-	2,000,000	-	2,000,000
BAN	Land acquisition.....	01/05/06	07/28/06	3.44%	-	400,000	-	400,000
BAN	Land acquisition.....	06/30/06	07/28/06	3.73%	-	1,200,000	-	1,200,000
Total.....					\$ 126,228	\$ 4,317,195	\$ (126,228)	\$ 4,317,195

Subsequent Events

On July 28, 2006, the Town used intergovernmental revenues to retire the outstanding BAN for land acquisition in the amount of \$400,000.

On July 28, 2006, the Town renewed and combined the outstanding BANs for land acquisition in the amounts of \$2,000,000 and \$1,200,000. The new BAN in the amount of \$3,200,000 carries an interest rate of 3.87% and matures on November 1, 2006.

On July 28, 2006, the Town issued BANs for police station construction and land acquisition in the amounts of \$3,000,000 and \$157,000, respectively. The BANs carry an interest rate of 3.99% and mature on July 27, 2007.

On September 29, 2006, the Town used intergovernmental revenues to retire the outstanding SAN in the amount of \$217,195.

NOTE 8 - LONG-TERM DEBT

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". However, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2006, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
General obligation.....	4.77%	\$ 1,535,000	\$ -	\$ (260,000)	\$ 1,275,000
General obligation - Fire Station.....	4.75%	1,300,000	-	(260,000)	1,040,000
General obligation - Landfill Capping	4.75%	900,000	-	(180,000)	720,000
General obligation - Sesuit Harbor....	4.75%	250,000	-	(50,000)	200,000
General obligation - DPW Building...	4.60%	2,160,000	-	(360,000)	1,800,000
Land Acquisition.....	3.75%	2,945,000	-	(200,000)	2,745,000
Land Acquisition/Library.....	3.65%	10,606,700	-	(701,700)	9,905,000
MWPAT Septic Note.....	0.00%	152,188	-	(10,872)	141,316
MWPAT Septic Note.....	0.00%	180,048	-	(10,020)	170,028
MWPAT Septic Note.....	0.00%	185,254	-	(9,525)	175,729
MWPAT Septic Note.....	0.00%	200,000	-	-	200,000
MWPAT Septic Note.....	0.00%	-	100,000	-	100,000
Total governmental funds.....		\$ 20,414,190	\$ 100,000	\$ (2,042,117)	\$ 18,472,073

During fiscal year 2006, the Town issued \$100,000 of MWPAT bonds to finance the septic repair loan program.

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2006, the Town's subsidy totaled approximately \$39,000. Future subsidies total approximately \$298,000. The amount of MWPAT bonds outstanding at June 30, 2006, totaled \$787,073.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$ 2,025,417	\$ 708,640	\$ 2,734,057
2008.....	2,037,921	661,091	2,699,012
2009.....	2,042,917	581,850	2,624,767
2010.....	2,037,917	492,523	2,530,440
2011.....	1,547,917	408,323	1,956,240
2012.....	932,917	350,357	1,283,274
2013.....	927,621	317,876	1,245,497
2014.....	922,869	284,995	1,207,864
2015.....	922,865	248,661	1,171,526
2016.....	923,340	211,866	1,135,206
2017.....	923,340	174,931	1,098,271
2018.....	913,340	137,533	1,050,873
2019.....	903,340	100,621	1,003,961
2020.....	822,472	63,529	886,001
2021.....	512,472	29,570	542,042
2022.....	32,704	8,012	40,716
2023.....	32,704	6,392	39,096
2024.....	5,000	375	5,375
2025.....	5,000	125	5,125
Total.....	\$ <u>18,472,073</u>	\$ <u>4,787,270</u>	\$ <u>23,259,343</u>

Bonds and Notes Payable - Enterprise Funds

<u>Project</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2006</u>
Golf Maintenance Building..	4.90%	\$ 425,000	\$ -	\$ (85,000)	\$ 340,000
Golf Irrigation System.....	5.00%	750,000	-	(150,000)	600,000
Total enterprise funds.....		\$ <u>1,175,000</u>	\$ <u>-</u>	\$ <u>(235,000)</u>	\$ <u>940,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$ 235,000	\$ 45,825	\$ 280,825
2008.....	235,000	34,662	269,662
2009.....	235,000	24,265	259,265
2010.....	<u>235,000</u>	<u>11,750</u>	<u>246,750</u>
Total.....	\$ <u>940,000</u>	\$ <u>116,502</u>	\$ <u>1,056,502</u>

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2006, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Police station.....	\$ 8,150,000
Land acquisition.....	3,600,000
MWPAT septic loans.....	<u>300,000</u>
Total.....	\$ <u>12,050,000</u>

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2006, the following changes occurred in long-term liabilities:

	<u>Balance June 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>
Governmental Activities:					
Bonds and notes payable.....	\$ 20,414,190	\$ 100,000	\$ (2,042,117)	\$ 18,472,073	\$ 2,025,417
Compensated absences.....	<u>705,167</u>	<u>37,936</u>	<u>-</u>	<u>743,103</u>	<u>74,311</u>
Total.....	\$ <u>21,119,357</u>	\$ <u>137,936</u>	\$ <u>(2,042,117)</u>	\$ <u>19,215,176</u>	\$ <u>2,099,728</u>
Business-type Activities:					
Bonds and notes payable.....	\$ 1,175,000	\$ -	\$ (235,000)	\$ 940,000	\$ 235,000
Compensated absences.....	<u>76,966</u>	<u>8,959</u>	<u>-</u>	<u>85,925</u>	<u>8,593</u>
Total.....	\$ <u>1,251,966</u>	\$ <u>8,959</u>	\$ <u>(235,000)</u>	\$ <u>1,025,925</u>	\$ <u>243,593</u>

With the exception of the portion of debt related to the community preservation fund, the governmental activities long-term liabilities are liquidated by the general fund. Bonds and notes payable of the business-type activities are liquidated by the golf course enterprise fund. Compensated absences of the business-type activities are liquidated by the golf course enterprise and transfer station enterprise funds, respectively.

NOTE 9 - RISK FINANCING

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

Health Insurance

The Town participates in a health insurance risk pool administered by the Cape Cod Municipal Health Group (Group). The Group offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. The Town is obligated to pay the Group its required premiums and, in the event the Group is terminated, its proportionate share of a deficit, should one exist.

Workers' Compensation

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

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the Barnstable County Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable County Retirement Board. Substantially all employees of the Town are members of the System.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Barnstable County Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 99 Willow Street, Yarmouthport, Massachusetts, 02675.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Chapter 32 of MGL governs the contributions of plan members. The Town's contributions to the System for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,378,618, \$1,249,822, and \$1,078,789, respectively, which equaled its required contribution for each fiscal year.

NOTE 11 - COMMITMENTS

The Town is in the process of constructing a new library. At June 30, 2006, approximately \$2,789,000 had been spent on this project. Approximately \$75,000 remains to be spent on this project.

The Town is in the process of constructing a new police station. At June 30, 2006, approximately \$445,000 had been spent on this project. Approximately \$7,700,000 remains to be spent on this project.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$3,600,000 for land acquisition.

NOTE 12 - CONTINGENCIES

Various legal actions and claims are pending against the Town. 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, 2006, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2006.

The Town 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, 2006, 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 the Town expects such amounts, if any, to be immaterial.

NOTE 13 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

During fiscal year 2006, the Town implemented the following GASB pronouncements:

- Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.
- Statement #46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*.
- Statement #47, *Accounting for Termination Benefits*.

The implementation of these pronouncements had no impact on the basic financial statements.

NOTE 14 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2008. This Statement will not impact the Town's basic financial statements.
- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2009. The Town is currently evaluating the effect that this Statement will have on the basic financial statements.

These pronouncements will be implemented by their respective due dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 26,336,380	\$ 26,336,380	\$ 26,467,156	\$ 130,776
Motor vehicle and other excise taxes.....	1,445,000	1,445,000	2,144,405	699,405
Hotel/ motel tax.....	392,000	392,000	424,615	32,615
Tax and utility liens.....	-	-	29,417	29,417
Intergovernmental	867,351	867,351	922,929	55,578
Penalties and interest on taxes.....	150,000	150,000	166,797	16,797
Licenses, permits and fees.....	6,265,355	6,265,355	6,833,626	568,271
Fines and forfeitures.....	75,000	75,000	71,902	(3,098)
Departmental.....	25,000	25,000	69,096	44,096
Investment income.....	75,000	75,000	239,689	164,689
TOTAL REVENUES.....	35,631,086	35,631,086	37,369,632	1,738,546
EXPENDITURES				
Current:				
General government.....	3,756,252	4,116,028	3,273,287	842,741
Public safety.....	7,978,112	8,853,652	8,179,138	674,514
Education.....	13,780,830	13,925,830	13,577,054	348,776
Public works.....	3,998,598	4,975,220	4,099,200	876,020
Health and human services.....	603,585	649,117	627,995	21,122
Culture and recreation.....	2,938,739	3,274,224	3,087,957	186,267
Pension benefits.....	1,378,618	1,378,618	1,378,618	-
Employee benefits.....	1,987,193	1,950,852	1,930,414	20,438
Property and liability insurance.....	292,850	292,850	282,523	10,327
State and county charges.....	608,895	608,895	598,322	10,573
Debt service:				
Principal.....	2,278,222	2,278,222	2,277,117	1,105
Interest.....	1,094,476	1,094,476	1,072,253	22,223
TOTAL EXPENDITURES.....	40,696,370	43,397,984	40,383,878	3,014,106
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(5,065,284)	(7,766,898)	(3,014,246)	4,752,652
OTHER FINANCING SOURCES (USES)				
Transfers in.....	1,851,205	2,832,402	2,832,402	-
Transfers out.....	-	(400,000)	(414,011)	(14,011)
TOTAL OTHER FINANCING SOURCES (USES).....	1,851,205	2,432,402	2,418,391	(14,011)
NET CHANGE IN FUND BALANCE.....	(3,214,079)	(5,334,496)	(595,855)	4,738,641
FUND BALANCE AT BEGINNING OF YEAR.....	7,938,884	7,938,884	7,938,884	-
FUND BALANCE AT END OF YEAR.....	\$ 4,724,805	\$ 2,604,388	\$ 7,343,029	\$ 4,738,641

See notes to basic financial statements.

A. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2006, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the statement of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 37,369,632	\$ 40,383,878	\$ 2,418,391
<u>Adjustments</u>			
Net change in recording other expenditures.....	-	(2,053)	-
<u>Reclassifications</u>			
To reclassify activity to the golf course enterprise fund.....	(2,280,536)	(2,434,529)	(244,125)
To reclassify activity to the transfer station enterprise fund.....	<u>(1,570,739)</u>	<u>(1,316,382)</u>	<u>-</u>
GAAP basis as reported on the statement of revenues expenditures and changes in fund balances.....	<u>\$ 33,518,357</u>	<u>\$ 36,630,914</u>	<u>\$ 2,174,266</u>

B. Fund Deficits

At June 30, 2006, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Community Preservation Fund (major fund).....	\$ 1,408,168	Issuance of long-term debt
Police Station Construction.....	444,507	Issuance of long-term debt
Police Detail.....	61	Charges for services