

DAUFUSKIE ISLAND FIRE DISTRICT

**Financial Statements
for the Year Ended
June 30, 1998**

DAUFUSKIE ISLAND FIRE DISTRICT

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Report of Independent Certified Public Accountants

The Honorable Board of Commissioners
Daufuskie Island Fire District
Daufuskie Island, South Carolina

We have audited the accompanying general purpose financial statements of the Daufuskie Island Fire District as of and for the year ended June 30, 1998. These general purpose financial statements are the responsibility of Daufuskie Island Fire District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Daufuskie Island Fire District as of June 30, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying information listed as schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Daufuskie Island Fire District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Chris Morris & Associates, PC

October 20, 1998

Daufuskie Island Fire District
Combined Balance Sheets
All Fund Types & Account Groups
June 30, 1998

	Governmental Fund Types			Account Groups		Totals (Memorandum Only)	
	General	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debt	June 30, 1998	June 30, 1997 *
Assets:							
Cash and investments	\$174,190	(\$12,130)	--	--	--	\$162,060	\$63,673
Cash-restricted (Beaufort County)	16,047	--	--	--	--	16,047	(37,764)
Due from other funds	--	--	--	--	--	--	121,569
Tax receivable-restricted	3,996	309	--	--	--	4,305	29,883
Prepaid expense	3,030	--	--	--	--	3,030	10,442
Amount to be provided for retirement of general long-term debt	--	--	--	--	546,990	546,990	2,632
Land	--	--	--	36,048	--	36,048	36,048
Buildings	--	--	--	26,967	--	26,967	26,968
Construction in process	--	--	--	811,825	--	811,825	--
Furniture & fixtures	--	--	--	3,985	--	3,985	1,970
Office equipment	--	--	--	2,758	--	2,758	6,447
Computer equipment	--	--	--	3,800	--	3,800	7,222
General equipment	--	--	--	125,258	--	125,258	131,744
Motor vehicles	--	--	--	320,439	--	320,439	337,984
Total assets	\$197,263	(\$11,821)	--	\$1,331,080	\$546,990	\$2,063,512	\$738,818
Liabilities and Fund Equity:							
Accounts payable	\$4,155	--	--	--	--	\$4,155	\$1,487
Accrued payroll	8,065	--	--	--	--	8,065	3,038
Retirement payable	1,086	--	--	--	--	1,086	--
Payroll taxes withheld	3,449	--	--	--	--	3,449	5,859
Compensated absences	--	--	--	--	2,947	2,947	2,632
Bonds payable	--	--	--	--	544,043	544,043	--
Total liabilities	16,755	--	--	--	546,990	563,745	13,016
Fund Equity							
Investment in general fixed assets	--	--	--	1,331,080	--	1,331,080	548,383
Fund balance:							
Reserved for debt service	--	(11,821)	--	--	--	(11,821)	77,304
Reserved for capital projects	--	--	--	--	--	--	--
Unreserved	180,508	--	--	--	--	180,508	100,115
Total fund equity	180,508	(11,821)	--	1,331,080	--	1,499,767	725,802
Total liabilities and fund equity	\$197,263	(\$11,821)	--	\$1,331,080	\$546,990	\$2,063,512	\$738,818

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

* The prior year balances have been reclassified to conform to the 1998 presentation.

Daufuskie Island Fire District
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1998

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Debt Service	Capital Projects	June 30, 1998	June 30, 1997 *
Revenues:					
Current Taxes	\$399,571	\$49,636	--	\$449,207	\$374,625
Homestead Exemption	378	47	--	425	355
Delinquent Taxes	20,270	2,695	--	22,965	48,727
Automobile Taxes	5,204	790	--	5,994	5,052
Penalties	2,207	306	--	2,513	2,954
Inventory Tax	19	2	--	21	--
Interest Income	1,884	4,213	564	6,661	322
Contributions	--	--	279,000	279,000	221,725
Total revenues	429,533	57,689	279,564	766,786	653,760
Expenditures:					
Current-					
Salaries	209,033	--	--	209,033	185,460
Fuel and oil	2,107	--	--	2,107	2,361
Tuition, travel, meals and lodging	5,352	--	--	5,352	3,078
Telephone	2,062	--	--	2,062	2,220
Utilities	3,050	--	--	3,050	6,212
Dispatch	9,000	--	--	9,000	9,000
Supplies	3,195	--	--	3,195	5,730
Equipment rental	2,255	--	--	2,255	3,245
Repairs and maintenance	8,801	--	--	8,801	14,387
Dues and subscriptions	1,104	--	--	1,104	1,059
Employee insurance	62,135	--	--	62,135	40,404
Employee medical	997	--	--	997	1,574
Retirement	9,139	--	--	9,139	--
Liability insurance	18,333	--	--	18,333	13,348
Taxes, licenses & fees	16,803	--	--	16,803	16,009

Uniforms	2,530	--	--	2,530	2,946
Accounting and legal	5,780	--	--	5,780	5,822
Other general and administrative	2,959	--	95	3,054	2,742
Capital outlay-					
Capital expenditures	5,823	--	814,580	820,403	233,346
Debt service-					
Principal retirement	--	56,200	--	56,200	--
Interest and fiscal charges	2,000	4,698	--	6,698	7
Bond issuance costs	--	8,916	--	8,916	--
Total expenditures	<u>372,458</u>	<u>69,814</u>	<u>814,675</u>	<u>1,256,947</u>	<u>548,949</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>57,075</u>	<u>(12,125)</u>	<u>(535,111)</u>	<u>(490,161)</u>	<u>104,811</u>
OTHER FINANCING SOURCES:					
Proceeds from General Obligation Bonds	--	--	600,000	600,000	--
Sale of General Fixed Assets	2,998	--	--	2,998	7,731
Operating Transfer Out	(121,569)	--	--	(121,569)	--
Total Other Financing Sources	<u>(118,571)</u>	<u>--</u>	<u>600,000</u>	<u>481,429</u>	<u>7,731</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING	<u>(61,496)</u>	<u>(12,125)</u>	<u>64,889</u>	<u>(8,732)</u>	<u>112,542</u>
FUND BALANCES, July 1	100,115	77,304	--	177,419	64,877
Residual equity transfers in	141,889	--	--	141,889	--
Residual equity transfers out	--	(77,000)	(64,889)	(141,889)	--
FUND BALANCES, June 30	<u>\$180,508</u>	<u>(\$11,821)</u>	<u>(\$0)</u>	<u>\$168,687</u>	<u>\$177,419</u>

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

* The prior year balances have been reclassified to conform to the 1998 presentation.

Daufuskie Island Fire District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - General and Capital Projects Funds
 For the Fiscal Year Ended June 30, 1998

	General			Capital Projects *		
	Actual	Budget	Variance- Favorable (Unfavorable)	Actual	Budget	Variance- Favorable (Unfavorable)
Revenues:						
Current Taxes	\$399,571	\$455,000	(\$55,429)	--	--	--
Homestead Exemption	378	--	378	--	--	--
Delinquent Taxes	20,270	--	20,270	--	--	--
Automobile Taxes	5,204	--	5,204	--	--	--
3% and 7% Penalties	2,207	--	2,207	--	--	--
Inventory Tax	19	--	19	--	--	--
Interest Income	1,884	--	1,884	564	--	564
Contributions	--	--	--	279,000	--	279,000
Total revenues	429,533	455,000	(25,467)	279,564	--	279,564
Expenditures:						
Current-						
Salaries	209,033	254,200	45,167	--	--	--
Fuel and oil	2,107	4,000	1,893	--	--	--
Tuition, travel, meals and lodging	5,352	8,300	2,948	--	--	--
Telephone	2,062	2,500	438	--	--	--
Utilities	3,050	8,000	4,950	--	--	--
Dispatch	9,000	9,000	--	--	--	--
Supplies	3,195	5,400	2,205	--	--	--
Equipment rental	2,255	3,500	1,245	--	--	--
Repairs and maintenance	8,801	18,000	9,199	--	--	--
Dues and subscriptions	1,104	900	(204)	--	--	--
Employee insurance	62,135	50,500	(11,635)	--	--	--
Employee medical	997	2,000	1,003	--	--	--
Retirement	9,139	23,500	14,361	--	--	--
Liability insurance	18,333	22,500	4,167	--	--	--

Taxes, licenses & fees	16,803	21,000	4,197	--	--	--
Uniforms	2,530	4,000	1,470	--	--	--
Accounting and legal	5,780	9,000	3,220	--	--	--
Other general and administrative	2,959	8,700	5,741	95	--	(95)
Capital outlay-						
Current expenditures	5,823	--	(5,823)	814,580	577,000	(237,580)
Debt service-						
Interest and fiscal charges	2,000	--	(2,000)	--	--	--
Total expenditures	<u>372,458</u>	<u>455,000</u>	<u>82,542</u>	<u>814,675</u>	<u>577,000</u>	<u>(237,675)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>57,075</u>	<u>--</u>	<u>57,075</u>	<u>(535,111)</u>	<u>(577,000)</u>	<u>41,889</u>
OTHER FINANCING SOURCES:						
Proceeds from General Obligation Bond	--	--	--	600,000	577,000	23,000
Sale of General Fixed Assets	2,998	--	2,998	--	--	--
Operating Transfers Out	(121,569)	--	(121,569)	--	--	--
Total Other Financing Sources	<u>(118,571)</u>	<u>--</u>	<u>(118,571)</u>	<u>600,000</u>	<u>577,000</u>	<u>23,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING	<u>(61,496)</u>	<u>--</u>	<u>(61,496)</u>	<u>64,889</u>	<u>--</u>	<u>64,889</u>
FUND BALANCES, July 1	100,115	--	100,115	--	--	--
Residual equity transfers in	141,889	--	141,889	--	--	--
Residual equity transfers out	--	--	--	(64,889)	--	(64,889)
FUND BALANCES, June 30	<u>\$180,508</u>	<u>--</u>	<u>\$180,508</u>	<u>--</u>	<u>--</u>	<u>--</u>

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

* The debt service and capital projects funds are not budgeted. Capital expenditures are budgeted. This statement includes the budgeted bond issuance and capital expenditures for comparison purposes.

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

Note 1 - Summary of Significant Accounting Policies

The Daufuskie Island Fire District (The Fire District) was created by Beaufort County in 1988. The charter was put into effect in April 1989. The Fire District is governed by seven board members appointed by the Beaufort County Council. As a governmental agency, it is tax exempt.

The Daufuskie Island Fire District accounts for its financial position and results of operations in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governmental units, and accordingly utilizes the encumbrance method of accounting and reporting. The Fire District also applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Accordingly, Daufuskie Island Fire District uses several funds and account groups which are described below.

A. Governmental Fund Types and Account Groups

A fund or account group is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. Daufuskie Island Fire District maintains the following fund types and account groups:

1. **Governmental Fund Types**, that include the General Fund, and Debt Service Fund, are used to record the general operations of Daufuskie Island Fire District.

General Fund - The General Fund is the general operating fund of Daufuskie Island Fire District. It is used to account for all financial resources and expenditures not pertaining to the service of debt.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of the general long-term obligation bond principal and interest, as well as other long-term debt.

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

**Note 1 - Summary of Significant Accounting Policies
(continued)**

Capital Projects Fund - The Capital Projects Fund is used to account for the acquisition or construction of capital assets being financed from General Obligation Bonds, grants or special assessments. This fund includes the impact fund, which is a special assessment made by Beaufort County for special capital requirements.

2. **General fixed assets and general long-term debt account groups** are used to account for property and equipment and long-term debt of governmental funds.

The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

B. Basis of Accounting

The Fire District maintains the modified accrual method of accounting. Under the modified accrual method, revenues are recognized when available and measurable. Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the liability is incurred.

Major revenue sources susceptible to accrual include: property taxes, automobile taxes, inventory taxes and interest income.

C. Fixed Assets

Property, plant and equipment used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Asset Account Group and are not depreciated. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

**Note 1 - Summary of Significant Accounting Policies
(continued)****D. Long-Term Debt**

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

E. Totals (Memorandum Only) Columns

The combined financial statements include total columns that aggregate the financial statements of the various fund types and account groups. The columns are designated "memorandum only" because the totals are not comparable to a consolidation in that inter-fund transactions are not eliminated.

F. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Fire District's financial position and operations. However, comparative (i.e., presentation of the prior year totals by fund type) data have not been presented in the General Fund statement because their inclusion would make the statement unduly complex and difficult to read.

G. Budgets and Budgetary Accounting

The Fire District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 15, the Fire Chief submits to the Fire District Board of Commissioners a proposed operating budget for the fiscal year commencing on the following July 1. The operating budget includes proposed expenditures and means of financing them.
2. After adoption by the Board of Commissioners, the budget is submitted to Beaufort County Council for approval prior to May 15.

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

**Note 1 - Summary of Significant Accounting Policies
(continued)**

3. Public hearings are conducted by Beaufort County Council to obtain taxpayer comments.
4. Prior to July 1, the budget is legally enacted through the passage of an ordinance.
5. The Fire Chief, upon approval of the Board of Commissioners, is authorized to transfer budgeted amounts between line items within the funds of the Fire District. This is accomplished through the mid-year review process of the budget procedure.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. The budget for the General Fund is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP).

H. Encumbrances

Encumbrance accounting is used for the General Fund. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances lapse at the close of the fiscal year.

I. Tax Collection

Daufuskie Island Fire District is a component unit of Beaufort County, South Carolina, and as such, Beaufort County is responsible for collecting taxes for Daufuskie Island Fire District and for holding the cash for Daufuskie Island Fire District. Beaufort County then remits taxes to the Fire District from time to time, based on budgets approved by the Fire District's Council. Receipts received on behalf of the debt service fund are maintained in a restricted cash account by the County and expended for debt servicing on behalf of the Fire District.

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

**Note 1 - Summary of Significant Accounting Policies
(continued)**

Additional receipts are maintained by the County on behalf of the Fire District and are recorded in the "Due from Other Funds" account.

Funds transferred to the Fire District, in accordance with the budget, were \$1,125,000 and \$1,032,000 for fiscal years 1997 and 1998 respectively.

Note 2 - Related Party Transactions

The Fire District is related to Beaufort County, South Carolina, in that it receives the major portion of its revenues through taxes assessed by Beaufort County. Additionally, the County appoints the Commissioners that oversee the Fire District, and the County provides all payroll tax services for the Fire District.

Note 3 - Cash and Investments

During the year ended June 30, 1998, Beaufort County collected money to be used by the Fire District for its future debt service. These funds are held in escrow by the County and are reported in the Debt Service Fund.

Beaufort County's restricted cash usually are balances on a ledger. The actual cash for the accounts are in Beaufort County's general checking accounts. Some of those funds are taken, from time to time, to invest in various investments. The interest that is earned accrues to the Fire District.

All bank accounts held by Daufuskie Island Fire District or Beaufort County are insured by the FDIC and are not over \$100,000 per institution.

Note 4 - Compensated Absences

Full-time permanent employees are granted annual vacation benefits. Generally, after one year of service, employees are entitled to their accrued vacation upon termination.

The estimated current portion of the liability for vested vacation benefits attributable to the Fire District's

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

Note 4 - Compensated Absences (continued)

governmental fund is recorded as an expenditure and liability in the respective funds. The long-term portion is recorded in the General Long-Term Debt Account Group.

Note 5 - Claims and Judgements

The Fire District's losses are covered by commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 6 - Contributions from Local Businesses

Local businesses on Daufuskie Island entered a pact with Beaufort County, whereby the businesses would pay \$140,000 in fiscal year 1996 to Beaufort County, and \$100,000 each year for several years thereafter, as a contribution toward the improvement of the Fire District.

The agreement is between the contractors and Beaufort County. Yet, Beaufort County has separately entered into an agreement with the Fire District to fund a fire station and fire trucks, regardless of the certainty of the contributions from the contractors. In addition, the majority of the funds contributed to the Fire District have already been spent or are in the process of being committed toward the construction of a fire station and the purchase of fire equipment. Since the Fire District is a component unit of Beaufort County, and since the County has contributed funds to the Fire District toward these acquisitions, we have recorded funds that have been committed to the Fire District as revenue when they are both available and measurable.

For the developers, \$140,000 was received in 1996, \$100,000 in 1997 and \$75,000 instead of the expected \$100,000 in 1998. Future contributions to Beaufort County may not be collectable. Beaufort County, in return, has contributed not only the funds received from the developers to Daufuskie Island Fire District, but has also contributed an additional \$121,569 in fiscal year 1997 towards the acquisition of a fire truck, and an additional \$204,000 toward the acquisition of a fire station in fiscal year 1998.

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

Note 7 - Leases

The Fire District leases land and equipment under operating leases with unexpired terms of from one to three years. Total rental expense for leases amounted to \$3,245 and \$2,255 in fiscal years 1997 and 1998, respectively.

Minimum annual rentals for operating leases in effect at June 30, 1998, are listed below. There were no capital leases outstanding on June 30, 1998.

<u>Fiscal Year</u>	<u>Equipment</u>
1999	\$ 1,505
2000	-
2001	-
2002	-
2003 and thereafter	-
	<u>\$1,505</u>

Note 8 - Pension Costs

The Fire District participates in a State-run defined benefit pension system - The South Carolina Police Officer's Retirement System.

All full-time employees are eligible for and must become members of the Police Officer's Retirement System. Participants in the defined benefit plan vest after five years of plan participation. Employees defer a portion of their salary until termination, retirement, death or financial hardship. Retirement age is 55 with five years of service or 25 years of credited service. Disability benefits are available with five years of credited service unless the injury is job related. The normal cost is funded by contributions from the members at a rate of 6.5% of salary. The Fire District's share of normal cost is based on 10.3% of the participants' wages. No past service costs are assessed against the Fire District.

The Fire District's total payroll in fiscal year 1998 was \$209,033 while contributions were based on a payroll of \$80,498. Daufuskie Island Fire District was required to contribute \$8,291, while the employees contributed \$5,232 for fiscal year 1998.

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

Note 9 - General Long-Term Debt

General Obligation Bond:

\$600,000 General Obligation Bond,
due in annual installments of \$60,898
through June 1, 2010. Payments include
interest of 4.86%, unsecured.

\$544,043

The General Obligation Bond is with Wachovia Bank of South Carolina, N.A. Their covenants require an annual governmental audit (yellow book) with both a complete report and an internal controls report. The bond is unsecured, except by a promise to levy taxes for payment of the debt, and for a promise for Beaufort County to levy taxes should Daufuskie Island Fire District not be able to levy adequate taxes to service the debt. The bond was issued on April 1, 1998.

The total annual requirements to pay all debt outstanding as of June 30, 1998, including estimated interest are as follows:

<u>Year(s) ended June 30,</u>	<u>Total Bond Requirements</u>
1999	\$ 60,898
2000	60,898
2001	60,898
2002	60,898
2003	<u>60,898</u>
Total debt service over next 5 years	<u>304,490</u>
2004-2008	304,490
2009-2010	<u>121,796</u>
Total debt service requirements beyond the next 5 years	<u>426,286</u>
Total debt service requirements	<u>\$730,776</u>

DAUFUSKIE ISLAND FIRE DISTRICT

Notes to Financial Statements
June 30, 1998

Note 10 - Debt Service Fund

During the year ended June 30, 1998, Beaufort County collected money to be used by the Fire District to pay its debt service on the outstanding First Wachovia bond. These funds are held in escrow by the County and are reported in the Debt Service Fund.

Each of Daufuskie Island Fire District's cash balances are below \$100,000 per institution and are insured by the FDIC.

Note 11 - Accounts Receivable

Beaufort County collects property taxes on behalf of Daufuskie Island Fire District. The property taxes are transferred to the general fund based on budgeted revenues. Additional receipts are maintained by the County on behalf of the Fire District. Receipts received on behalf of the debt service fund are maintained in a restricted cash account by the County and expended for debt servicing on behalf of the Fire District.

During the year, Beaufort County accrued a receivable for delinquent taxes to be collected on behalf of the Fire District to pay its general fund and debt service fund on the General Obligation Bond. These funds are received within 60 days after June 30 and escrowed by the County and the revenues are reported in the General and Debt Service funds.

DAUFUSKIE ISLAND FIRE DISTRICT
Schedule of Changes in General Fixed Assets

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 1998</u>
Land	\$ 36,048	\$ -	\$ -	\$ 36,048
Buildings	26,967	-	-	26,967
Construction in Process	-	811,825	-	811,825
Furniture & Fixtures	1,970	3,504	(1,489)	3,985
Computer Equipment	7,222	-	(3,422)	3,800
Office Equipment	6,447	-	(3,689)	2,758
General Equipment	131,744	4,818	(11,304)	125,258
Motor Vehicles	<u>337,984</u>	<u>255</u>	<u>(17,800)</u>	<u>320,439</u>
Total	<u>\$ 548,382</u>	<u>\$820,402</u>	<u>\$(37,704)</u>	<u>\$1,331,080</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE OR
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

The Honorable Board of Commissioners
Daufuskie Island Fire District
Daufuskie Island, South Carolina

We have audited the general purpose financial statements of Daufuskie Island Fire District, South Carolina, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 20, 1998.

We conducted our audit in accordance with generally accepted auditing standards and GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of Daufuskie Island Fire District, South Carolina, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles (GAAP). Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of Daufuskie Island Fire District, South Carolina, for the year ended June 30, 1998, we obtained an

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understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Mandatory Vacations

A method to ensure that adequate controls exist is to require administrative staff to take vacations. Such a procedure is recommended to help ensure adequate asset safeguarding.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

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This report is intended for the information and use of management, and the County Council of Daufuskie Island Fire District. However, this report is a matter of public record and its distribution is not limited.

Chm M. R. Allen, PC

Tucker, GA
October 20, 1998