

DAUFUSKIE ISLAND FIRE DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Daufuskie Island Fire District, as of and for the year ended June 30, 2010, which collectively comprise Daufuskie's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Daufuskie Island Fire District's 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 basic 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 and each major fund of the Daufuskie Island Fire District, as of June 30, 2010, and the respective changes in financial position 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 15, 2010 on our consideration of the Daufuskie Island Fire District internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis and budgetary comparison information 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.



Lisa T. Wechsler, P.A.
Beaufort, South Carolina
October 15, 2010

Daufuskie Island Fire District Management's Discussion and Analysis

As management of Daufuskie Island Fire District (Daufuskie), we offer readers of Daufuskie's financial statements this narrative overview and analysis of the financial activities of Daufuskie for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of Daufuskie exceed its liabilities at the close of the most recent fiscal year by \$1,811,484 (net assets). Of this amount, \$46,142 (restricted net assets) represents cash held by Beaufort County for debt service payments and impact fees. Another \$1,633,128 represents the investment in capital assets less depreciation on those assets. The remaining balance of \$132,214 represents unrestricted net assets. Daufuskie's total net assets increased by \$145,017.
- As of the close of the current fiscal year Daufuskie's governmental funds reported a combined ending fund balance of \$84,062, an increase of \$3,966. This increase was the result of Daufuskie's budgeted shortfall for tax year 2009.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Daufuskie's basic financial statements. Daufuskie's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net assets presents information on all of Daufuskie's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in the net assets may serve as a useful indicator of whether the financial position of Daufuskie is improving or deteriorating.

The statement of activities presents information showing how Daufuskie's net assets changed during the most recent fiscal year. Changes in net assets are reported on a full accrual basis, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of Daufuskie that are supported by general revenues such as taxes and fees. The governmental activities of Daufuskie include programs related to public safety for fire protection. Daufuskie currently has no business type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been grouped for specific activities. Daufuskie like other public agencies uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the programs of Daufuskie can be divided into governmental 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating Daufuskie's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it may be useful to compare the two for similar activities and programs. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to assist in this comparison of governmental programs and governmental activities.

Daufuskie maintains three individual governmental programs. Information is presented by expenditure category in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund. Data from these programs are combined into a single, aggregated presentation.

Daufuskie adopts an annual budget for the general fund and the debt service fund. A statement comparing actual to budgeted revenues and expenditures has been provided to demonstrate compliance with this budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents a report on compliance and on internal control over financial reporting.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a public government's financial position. In the case of Daufuskie Island Fire District assets exceeded liabilities by \$1,811,484 and \$1,666,467 for 2010 and 2009, respectively. The following table reflects the condensed government-wide statement of net assets.

DAUFUSKIE ISLAND FIRE DISTRICT NET ASSETS		
	Governmental Activities	
	2010	2009
Current and Other Assets	\$ 197,911	\$ 149,203
Capital Assets	<u>1,633,128</u>	<u>1,536,152</u>
Total Assets	<u>1,831,039</u>	<u>1,685,355</u>
Long-term Liabilities Outstanding	<u>19,555</u>	<u>18,888</u>
Total Liabilities	<u>19,555</u>	<u>18,888</u>
Net Assets		
Investment in Capital Assets, Net of Related Debt	1,633,128	1,536,152
Unrestricted	132,214	111,974
Restricted	<u>46,142</u>	<u>18,341</u>
Total Net Assets	<u>\$ 1,811,484</u>	<u>\$ 1,666,467</u>

The largest portion of Daufuskie's net assets \$1,633,128 (90 percent) reflects its investment in capital assets less the accumulated depreciation on capital assets. New assets added in year 2010 include \$134,515 for mobile radios donated by Beaufort County and \$40,000 for an air compressor. These capital assets are not available for future spending. At June 30, 2010, Daufuskie had outstanding long-term liabilities of \$19,555 that represented the liability for accrued vacation leave. There was no general obligation debt. The \$46,142 (3 percent) represents the assets restricted for payment of debt and impact fees. The remaining net assets of \$132,214 (7 percent) are unrestricted.

At the end of the current fiscal year, Daufuskie Island Fire District is able to report positive balances in all the net asset categories.

Governmental activities. Daufuskie's total net assets increased by \$145,017. Key elements of this increase are as shown in the following table.

DAUFUSKIE ISLAND FIRE DISTRICT CHANGE IN NET ASSETS

	Governmental Activities	
	2010	2009
Expenses		
Public Safety - Fire Protection		
Personal Services	\$ 762,712	\$ 742,991
Materials and Services	92,270	89,755
Depreciation	77,539	84,127
Interest	-	2,542
Total expenses	<u>932,521</u>	<u>919,415</u>
General Revenues		
Taxes	932,646	902,116
Impact Fees	4,506	5,355
Miscellaneous	<u>140,386</u>	<u>2,668</u>
Total general revenues	<u>1,077,538</u>	<u>910,139</u>
Change in net assets	145,017	(9,276)
Net assets – beginning	<u>1,666,467</u>	<u>1,675,743</u>
Net assets – ending	<u>\$ 1,811,484</u>	<u>\$ 1,666,467</u>

Highlights

- Personal Services are up due to normal promotions and longevity as provided in the budget.
- Materials and Services are up due to equipment expenses of \$7,000 for pagers and radios. Other increases relate to normal cost of living increases in routine operating expenses.
- Depreciation is down due to the final year deprecation on some equipment.
- Interest is down because the final payment was made on the general obligation bond in fiscal year 2009.
- Impact Fees have been affected by the economic downturn in housing across the country.
- Miscellaneous revenues are up because of the donation of radios from Beaufort County in the amount of \$134,515.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of Daufuskie's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Daufuskie'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, Daufuskie's governmental funds reported combined ending fund balances of \$84,062, an increase of \$3,966. The major governmental funds consist of the general fund, the debt service fund, and the impact fund. This increase can be attributed to a decrease of \$23,835 in the general fund, an increase of \$4,506 in the impact fund, and an increase of \$23,295 in the debt service fund. The decrease in the general fund is attributable to a budgeted fund decrease.

As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. The general fund balance of \$37,920 is unreserved and represents 4% of the total expenditures for operations.

Capital Assets and Debt Administration

Capital Assets. Daufuskie's investment in capital assets for its governmental type activities as of June 30, 2010 amounts to \$1,633,128 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, leasehold improvements, furniture and equipment, and vehicles. New assets added during the fiscal year 2010 include \$134,515 for donated mobile radios and \$40,000 for an air compressor. Depreciation expense was \$77,539 for the year.

DAUFUSKIE ISLAND FIRE DISTRICT CAPITAL ASSETS - NET OF DEPRECIATION

	Governmental Activities	
	2010	2009
Land and Improvements	\$ 36,048	\$ 36,048
Buildings and Improvements	854,537	883,750
Leasehold Improvements	9,058	10,225
Furniture and Equipment	174,516	2,918
Vehicles	558,969	603,211
Total	<u>\$ 1,633,128</u>	<u>\$ 1,536,152</u>

Additional information on Daufuskie's capital assets can be found in note 5.

Long-term obligations. At the end of the current fiscal year, Daufuskie had no long-term debt outstanding. Long-term obligations consisted of the accrual for vacation earned.

DAUFUSKIE ISLAND FIRE DISTRICT LONG-TERM DEBT OUTSTANDING

	Governmental Activities	
	2010	2009
Vacation Leave Accrued	\$ 19,555	\$ 18,888
Total	\$ 19,555	\$ 18,888

Economic Factors and Next Year's Budgets

The 2010-2011 approved operations budget of \$926,299 is to be funded with a tax levy of 30.71 mills estimated to raise \$896,179 in taxes.

Requests for information

This financial report is designed to provide a general overview of Daufuskie Island Fire District finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief, Daufuskie Island Fire District, Post Office Box 35, Daufuskie Island, South Carolina, 29915.

BASIC FINANCIAL STATEMENTS

**DAUFUSKIE ISLAND FIRE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010**

ASSETS

Cash	\$ 142,618
Accounts Receivable	141,650
Due from Beaufort County	(95,197)
Prepaid Expenses	8,840
Capital Assets, not being depreciated	36,048
Capital Assets, being depreciated	1,597,080
Total Assets	<u>\$ 1,831,039</u>

LIABILITIES

Accrued Vacation Leave	\$ 19,555
Total Liabilities	<u>19,555</u>

NET ASSETS

Unrestricted	132,214
Restricted for Debt Service	32,260
Restricted for Impact Fund	13,882
Investment in capital assets, net of related debt	1,633,128
Total Net Assets	<u>1,811,484</u>
Total Liabilities and Net Assets	<u>\$ 1,831,039</u>

The notes to the financial statements are an integral part of this statement.

**DAUFUSKIE ISLAND FIRE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

EXPENSES

Public Safety - Fire Protection	
Personal Services	\$ 762,712
Materials and Services	92,270
Depreciation	77,539
Total Program Expenses	<u>932,521</u>

GENERAL REVENUES

Taxes	932,646
Impact Fees	4,506
Miscellaneous	140,386
Total General Revenues	<u>1,077,538</u>
 Increase in Net Assets	 145,017
 Net Assets, Beginning of year	 <u>1,666,467</u>
Net Assets, End of year	<u>\$ 1,811,484</u>

The notes to the financial statements are an integral part of this statement.

**DAUFUSKIE ISLAND FIRE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	GOVERNMENTAL FUND TYPES			TOTAL
	GENERAL FUND	DEBT SERVICE FUND	IMPACT FUND	
ASSETS				
Cash	\$ 142,618	\$ -	\$ -	\$ 142,618
Receivables-Net of Allowances	132,044	9,606	-	141,650
Due from Beaufort County	(139,499)	30,420	13,882	(95,197)
Prepaid Expenses	8,840	-	-	8,840
Total Assets	<u>\$ 144,003</u>	<u>\$ 40,026</u>	<u>\$ 13,882</u>	<u>\$ 197,911</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred Property Taxes	\$ 106,083	\$ 7,766	\$ -	\$ 113,849
Total Liabilities	<u>106,083</u>	<u>7,766</u>	<u>-</u>	<u>113,849</u>
FUND BALANCES				
Unreserved	37,920	32,260	13,882	84,062
Total Fund Balances	<u>37,920</u>	<u>32,260</u>	<u>13,882</u>	<u>84,062</u>
Total Liabilities and Fund Balances	<u>\$ 144,003</u>	<u>\$ 40,026</u>	<u>\$ 13,882</u>	<u>\$ 197,911</u>

**DAUFUSKIE ISLAND FIRE DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total net assets reported for governmental activities in the statement of net assets is different because:

Total fund balances for governmental funds	\$	84,062
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land and improvements	\$	36,048
Buildings and improvements, net of \$273,622 accumulated depreciation		854,537
Leasehold improvements, net of \$8,442 accumulated depreciation		9,058
Vehicles, net of \$378,334 accumulated depreciation		558,969
Furniture and equipment, net of \$129,393 accumulated depreciation		<u>174,516</u>
Total Capital Assets		1,633,128
Some of the receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.		
		113,849
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities --both current and long-term--are reported in the statement of net assets.		
Balances at June 30, 2010 are:		
Accrued Vacation Leave		<u>(19,555)</u>
Total Long-Term Liabilities		<u>(19,555)</u>
Total net assets of governmental activities	\$	<u>1,811,484</u>

The notes to the financial statements are an integral part of this statement.

**DAUFUSKIE ISLAND FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2010**

	GOVERNMENTAL FUND TYPES			TOTAL
	GENERAL	DEBT SERVICE	IMPACT FUND	
REVENUES				
Taxes	\$ 826,609	\$ 61,295	\$ -	\$ 887,904
Impact Fees	-	-	4,506	4,506
Miscellaneous	140,236	-	-	140,236
Total General Revenues	<u>966,845</u>	<u>61,295</u>	<u>4,506</u>	<u>1,032,646</u>
EXPENDITURES				
Public Safety - Fire Protection				
Current				
Personal Services	762,045	-	-	762,045
Materials and Services	92,120	-	-	92,120
Capital Outlay	136,515	38,000	-	174,515
Total Expenditures	<u>990,680</u>	<u>38,000</u>	<u>-</u>	<u>1,028,680</u>
Net Change in Fund Balances	<u>(23,835)</u>	<u>23,295</u>	<u>4,506</u>	<u>3,966</u>
Fund Balances, Beginning of year	61,755	8,965	9,376	80,096
Fund Balances, End of year	<u>\$ 37,920</u>	<u>\$ 32,260</u>	<u>\$ 13,882</u>	<u>\$ 84,062</u>

The notes to the financial statements are an integral part of this statement.

**DAUFUSKIE ISLAND FIRE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

The change in net assets reported for governmental activities in the statement of activities is different because:

Net change in fund balances – total governmental funds	\$ 3,966
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. This is the amount by which capital outlays (\$174,515) was more than depreciation (\$77,539) in the current period.	96,976
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	44,742
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated Absences	<u>(667)</u>
Total change in net assets of governmental activities	<u>\$ 145,017</u>

The notes to the financial statements are an integral part of this statement.

DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Daufuskie Island Fire District (Daufuskie) was organized in 1988 for the purpose of providing fire protection to the residents of Daufuskie Island located in Beaufort County, South Carolina.

REPORTING ENTITY

Daufuskie is an autonomous government whose appointed board controls its operations and fiscal accountability. Daufuskie is a separate reporting entity and is not a component unit of any other governmental entity. Beaufort County is a related party in that the Beaufort County Council has final approval of budget, assesses millage, collects taxes and prepares payroll for Daufuskie. Beaufort County has also endorsed and approved the issuance of general obligation bonds for the construction of the fire station on Daufuskie Island, South Carolina.

Generally accepted accounting principles, as established by the Governmental Accounting Standards Board, require that the financial reporting entity's financial statements include the financial operation of the primary government organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic criteria for including organizations as component units within the reporting entity include imposition of will, and financial benefit or burden on a primary government and selection of governing authority. Based on the above criteria, the Daufuskie Island Fire District has no component units required to be reported in these financial statements.

The accompanying financial statements present the combined financial positions and combined results of operations of the various fund types controlled by the appointed board and the fire chief.

The operating budget is funded through property taxes. The operating revenues and expenditures are included in the General Fund. The accounting policies of Daufuskie conform to generally accepted accounting principles, as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard – setting body for establishing governmental accounting and financial reporting.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the reporting government as a whole, except for its fiduciary activities. Governmental activities are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Daufuskie reports only governmental activities, as there are no business type activities.

DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The statement of activities demonstrates the degree to which the direct expenses of a given 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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Daufuskie reports the following major governmental funds:

The *general fund* is Daufuskie's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* represents Daufuskie's collection and payment of the general obligation bond. It accounts for all financial resources that are restricted for debt payment.

The *impact fund* represents Daufuskie's collection of impact fees from developers within that district. It accounts for all financial resources that are restricted for capital assets.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is Daufuskie's policy to use restricted resources first then unrestricted resources, as they are needed.

DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Daufuskie's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Daufuskie is authorized by state statute to invest in the following:

- Obligations of the United States and its agencies;
- General obligations of the State of South Carolina and its political units;
- Savings and loan associations to the extent that the same are insured by an agency of the Federal Government;
- Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above and are held by a third party as escrow agent or custodian, at a market value not less than the amounts of the certificates of deposit plus interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the Federal Government.

Inventories

Inventories of the general fund consist of supplies held for consumption and are immaterial to the financial statements and accordingly are not recorded.

Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by Daufuskie as property and equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Daufuskie does not have any significant infrastructure assets that should be recorded at this time.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 years
Furniture and Equipment	5-15 years
Vehicles	15-25 years

DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Assets, Liabilities, and Net Assets or Equity - Continued

Compensated Absences

Unused vacation leave liabilities are reported as incurred in the applicable governmental type activities columns in the government-wide financial statements. Daufuskie employees can accumulate annual leave for a maximum of 144 hours for vacation leave and 72 hours for sick leave. Any amounts accrued in excess of the maximum limits are not carried forward. With sufficient notification of employment termination, unused vacation leave will be paid up to the maximum accrued hours of 144. Daufuskie Fire District has no financial liability for its sick leave. Therefore, a liability of \$19,555 has been recorded to reflect the accrued vacation leave for each eligible employee in addition to 17.95 percent for related payroll costs for taxes and retirement. Compensated absences are paid from the general fund.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Government-wide and fund financial statements must be presented using an all-inclusive format. That is, the results of the current period's activities are to be reported as an addition to (or a deduction from) equity at the beginning of the period to arrive at the closing equity balance. Thus changes in net assets on the government-wide statement of activities is added to (or deducted from) net assets – beginning of the fiscal year to arrive at net assets – end of the fiscal year.

Net assets are defined as the difference between assets and liabilities in the government-wide statement of the net assets.

The government-wide statement of net assets reports all government assets; therefore, a significant portion of the net assets reported there typically reflects a government's investment in capital assets. To draw financial statement users' attention to this important information, GAAP requires the amount of net assets invested in capital assets to be reported as a separate category of net assets. Net assets invested in capital assets, net of related debt includes all capital assets less accumulated depreciation and outstanding principal of related debt.

DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Assets, Liabilities, and Net Assets or Equity - Continued

Fund Equity - Continued

Restrictions may be imposed on a portion of Daufuskie's net assets by parties outside the government (such as creditors, grantors, contributors). In some cases, such restricted assets are directly associated with particular liabilities (for instance, restricted assets associated with revenue bonds). An amount equal to these restricted assets, less any related liabilities, is reported as restricted net assets.

GAAP direct that the difference between total net assets and the two categories discussed above (invested in capital assets, net of related debt and restricted net assets) be reported as unrestricted net assets.

Comparative Data

Comparative total data for the prior year has not been presented.

Expenses/Expenditures

Consistent with the current financial resources measurement focus, the governmental fund statement of activities report expenditures rather than expenses. Expenditures in the fund financial statements are presented by character for the governmental funds. The character of an expenditure is based upon the periods it is presumed to benefit. Expenditures that primarily benefit the present period (current expenditures) are distinguished from those presumed to benefit both the present and future periods (debt service expenditures and capital outlay expenditures). GAAP also provides for a fourth character classification, intergovernmental expenditures, for situations where one governmental entity provides resources to another.

Government-wide expenses are reported by function. The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. As a result, there are important differences between the expenditures reported on the governmental fund financial statements and those expenses reported on the government-wide financial statements. For example, the governmental funds report capital outlay expenditures, while the government-wide financial statements report depreciation.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BUDGET AND BUDGETARY ACCOUNTING

Prior to the start of each fiscal year, Daufuskie approves an operating budget prepared in accordance with generally accepted accounting principles. Beaufort County approves total budget and assesses millage to collect taxes. Daufuskie's executive committee approves any revisions to the budget during the year. Budgets are adopted for the general fund and the debt service fund. Daufuskie does not prepare a budget for the impact fund; accordingly, a budget to actual schedule is omitted for this fund. Millage for tax year 2009 was set at 30.11 mills for the general fund and 2.23 mills for the debt service fund.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results may differ from these estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits: The deposits for Daufuskie at June 30, 2010 were \$142,618 and the bank balance was \$161,726. All deposits were covered by federal depository insurance.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Daufuskie will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Daufuskie does not maintain a deposit policy regarding custodial credit risk.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 were as follows:

	<u>Fund Statements</u>	<u>Government-wide Statements</u>
Reimbursements from Beaufort County	\$ 1,112	\$ 1,112
Taxes Receivable	<u>146,626</u>	<u>146,626</u>
Total Accounts Receivable	147,738	147,738
Allowance for Doubtful Accounts	<u>(6,088)</u>	<u>(6,088)</u>
Receivables-net of allowances	<u>\$ 141,650</u>	<u>\$ 141,650</u>

The fund statements include deferred revenues of \$113,849 that represents the property taxes not collected within the sixty-day receivable recognition period.

NOTE 4 DUE FROM BEAUFORT COUNTY

The amount due from Beaufort County represents cash held by the County Treasurer in a pooled account. These deposits were entirely covered by federal deposit insurance or by collateral held by the financial institution in the County's name.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 PROPERTY AND EQUIPMENT

A summary of changes in the Daufuskie's property and equipment is as follows:

<u>Governmental Activities</u>	<u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>
<i>Capital assets not being depreciated</i>				
Land and improvements	\$ 36,048	\$ -	\$ -	\$ 36,048
Total capital assets, not being depreciated	<u>36,048</u>	<u>-</u>	<u>-</u>	<u>36,048</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	1,128,159	-	-	1,128,159
Leasehold improvements	17,500	-	-	17,500
Furniture and equipment	129,394	174,515	-	303,909
Vehicles	937,303	-	-	937,303
Total capital assets being depreciated	<u>2,212,356</u>	<u>174,515</u>	<u>-</u>	<u>2,386,871</u>
Less accumulated depreciation for:				
Buildings and improvements	244,409	29,213	-	273,622
Leasehold improvements	7,275	1,167	-	8,442
Furniture and equipment	126,476	2,917	-	129,393
Vehicles	334,092	44,242	-	378,334
Total accumulated depreciation	<u>712,252</u>	<u>77,539</u>	<u>-</u>	<u>789,791</u>
Total capital assets being depreciated, net	<u>1,500,104</u>	<u>96,976</u>	<u>-</u>	<u>1,597,080</u>
Governmental activities capital assets, net	<u>\$ 1,536,152</u>	<u>\$ 96,976</u>	<u>\$ -</u>	<u>\$ 1,633,128</u>

Depreciation expense was \$77,539 for the year ended June 30, 2010. This amount was allocated to the functional departments as follows:

<u>Governmental Activities</u>		
Public Safety Fire Protection		\$ 77,539
Total		<u>\$ 77,539</u>

NOTE 6 LONG-TERM OBLIGATIONS

A schedule of changes on long-term obligations follows:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>
Annual Leave	\$ 18,888	\$ 667	\$ -	\$ 19,555
Total	<u>\$ 18,888</u>	<u>\$ 667</u>	<u>\$ -</u>	<u>\$ 19,555</u>

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

Debt Limitation

The Fire District's general obligation debt is limited by law to eight percent of the total assessed value of all taxable real and personal property of the district. The latest assessed value for tax year 2009 was \$30,280,120. The computation of legal debt limits is as follows:

Assessed value (\$30,280,120 X 8%)	\$ 2,422,410
General obligation debt at June 30, 2010	<u> -</u>
Excess of debt limit over general obligation debt	<u>\$ 2,422,410</u>

Operating Leases

Daufuskie has operating leases on its office equipment that varies in length. It is anticipated that these leases will be renewed or continued on a monthly basis. These amounts are immaterial to the financial statements.

NOTE 7 PENSION PLAN OBLIGATIONS

The Fire District participates in the South Carolina Retirement System. The South Carolina Retirement System is a cost-sharing multi-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board.

Both employees and employers are required to contribute to the plan under authority of Title 9 of the South Carolina Code of Laws. All employers contribute at the actuarially required contribution rates. A summary of the required contribution rates and the amounts contributed to the plan follows:

SOUTH CAROLINA RETIREMENT SYSTEM

CONTRIBUTION INFORMATION:	2010	2009	2008
Total Payroll	\$ 534,144	\$ 521,573	\$ 499,836
Covered Payroll	476,221	474,999	454,952
Employee Contributions	30,954	30,875	29,572
Employee Contribution Rate (based upon salary)	6.50%	6.50%	6.50%
Employer Contributions	50,718	50,587	46,860
Employer Contribution Rate (based upon salary)	10.65%	10.65%	10.30%

The South Carolina Retirement System offers retirements and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The plan's provisions are established under Title 9 of the South Carolina Code of Laws.

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11980, Columbia, South Carolina 29211-1980.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 8 RISK MANAGEMENT

Daufuskie purchases insurance policies divided into coverage of workers' compensation, property and casualty, and employee health insurance from the insurance carrier. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy in accordance with insurance policy and benefit program limits.

Daufuskie has recorded insurance premium expenditures in the applicable functional expenditure categories of the general fund. These expenditures do not include estimated claim losses and estimable premium adjustments.

There have not been any significant reductions in insurance coverage from the prior year.

NOTE 9 COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

In regard to recent litigation involving the calculation of military emergency leave duty pay, the court ruled against the Daufuskie Island Fire District. At June 30, 2009, Daufuskie had escrowed \$10,000 towards the award in this suit. In the opinion of Daufuskie's counsel, the total final award should not exceed \$17,792. A final settlement had not been made as of the date of this report. Any balances remaining to be paid will be settled in the fiscal year 2011.

NOTE 10 ORIGINAL AND FINAL BUDGET APPROPRIATIONS

The differences between the original and final budget appropriations are as follows:

	<u>Amount</u>
Original Budget approved by Beaufort County Council	\$ 921,593
Equipment purchased from cash reserves on hand	5,500
Donations of radios from Beaufort County	<u>134,515</u>
Final Budget	<u>\$ 1,061,608</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

DAUFUSKIE ISLAND FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND TYPES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>GENERAL FUND</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES				
Taxes	\$ 879,423	\$ 879,423	\$ 826,609	\$ (52,814)
Miscellaneous	-	134,515	140,236	5,721
Total General Revenues	<u>879,423</u>	<u>1,013,938</u>	<u>966,845</u>	<u>(47,093)</u>
EXPENDITURES				
Public Safety - Fire Protection				
Current				
<u>Personal Services</u>				
Salaries	582,799	582,799	540,128	42,671
Payroll Taxes	44,585	44,585	40,248	4,337
Retirement	62,068	62,068	51,506	10,562
Group Health Insurance	108,240	108,240	94,569	13,671
Workmans Compensation	32,321	32,321	33,965	(1,644)
Unemployment Taxes	1,001	1,001	1,629	(628)
Total Personal Services	<u>831,014</u>	<u>831,014</u>	<u>762,045</u>	<u>68,969</u>
<u>Materials and Services</u>				
Advertising	100	100	100	-
Printing	100	100	100	-
Postage	200	200	196	4
Telephone and Fax	4,000	4,000	4,182	(182)
Electricity	7,500	7,500	6,374	1,126
Water and Sewer	1,000	1,000	1,257	(257)
Maintenance Contract	200	200	160	40
Repairs to Equipment	8,000	8,000	10,399	(2,399)
Equipment Maintenance	2,500	2,500	273	2,227
Repairs to Facilities	6,000	6,000	3,049	2,951
Equipment Rental	4,100	4,100	4,109	(9)
Professional/Legal Services	8,000	8,000	6,542	1,458
Medical/Annual Physicals	2,000	2,000	2,100	(100)
Per Diem	400	400	518	(118)
Transportation Costs/Barge	800	800	891	(91)
Pest Control	350	350	360	(10)
Dues and Subscriptions	1,500	1,500	1,705	(205)
Commercial Package/Equipment	17,849	17,849	17,849	-
Commercial Umbrella	1,730	1,730	1,730	-

**DAUFUSKIE ISLAND FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND TYPES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
<u>Materials and Services - Continued</u>				
Supplies	\$ 3,500	\$ 3,500	\$ 3,931	\$ (431)
Uniforms	5,000	5,000	4,817	183
Small Tools and Appliances	700	6,200	7,294	(1,094)
Educational	800	800	1,514	(714)
Training, Registration and Lodging	1,000	1,000	954	46
Fire Prevention	450	450	268	182
Training for Officers/Instructors	200	200	141	59
Photocopy Expenses	100	100	-	100
Other Office Supplies	300	300	643	(343)
Fuels and Lubricants	7,200	7,200	6,710	490
Vehicle Repair Parts	5,000	5,000	3,954	1,046
Total Materials and Services	<u>90,579</u>	<u>96,079</u>	<u>92,120</u>	<u>3,959</u>
Capital Outlay	<u>-</u>	<u>134,515</u>	<u>136,515</u>	<u>(136,515)</u>
Total Expenditures	<u>921,593</u>	<u>1,061,608</u>	<u>990,680</u>	<u>(63,587)</u>
Net Change in Fund Balances	(42,170)	(47,670)	(23,835)	23,835
Fund Balances, Beginning of year	<u>61,755</u>	<u>61,755</u>	<u>61,755</u>	<u>-</u>
Fund Balances, End of year	<u>\$ 19,585</u>	<u>\$ 14,085</u>	<u>\$ 37,920</u>	<u>\$ 23,835</u>

**DAUFUSKIE ISLAND FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND TYPES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	DEBT SERVICE FUND		
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes	\$ 65,130	\$ 61,295	\$ (3,835)
Total Revenues	<u>65,130</u>	<u>61,295</u>	<u>(3,835)</u>
EXPENDITURES			
Public Safety - Fire Protection			
Capital Outlay	65,130	38,000	27,130
Total Expenditures	<u>65,130</u>	<u>38,000</u>	<u>27,130</u>
Net Change in Fund Balances	-	23,295	23,295
Fund Balances, Beginning of year	8,965	8,965	-
Fund Balances, End of year	<u>\$ 8,965</u>	<u>\$ 32,260</u>	<u>\$ 23,295</u>

COMPLIANCE SECTION

LISA T. WECHSLER, P.A.

CERTIFIED PUBLIC ACCOUNTANT

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Lisa T. Wechsler, CPA

Independent Auditor's Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities and each major fund of Daufuskie Island Fire District, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. We conducted our audit in accordance with auditing standards generally accepted by 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Daufuskie Island Fire District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Daufuskie's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Daufuskie's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Daufuskie Island Fire District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of commissioners and management and is not intended to be and should not be used by anyone other than those specified parties.

Lisa T. Wechsler P.A.
Lisa T. Wechsler, P.A.

Beaufort, South Carolina

October 15, 2010