

**DAUFUSKIE ISLAND FIRE DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**DAUFUSKIE ISLAND FIRE DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINANCIAL SECTION**



# CROWLEY WECHSLER & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2011, 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, 2011, 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.

As discussed in Note 1 to the basic financial statements, effective July 1, 2010, the Fire District adopted the provisions of Governmental Accounting Standards Boards (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2011 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.

*Crowley Wechsler & Associates LLC*  
Crowley Wechsler & Associates LLC  
Beaufort, South Carolina  
November 16, 2011

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## **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, 2011.

### **Financial Highlights**

- The assets of Daufuskie exceed its liabilities at the close of the most recent fiscal year by \$1,785,411 (net assets). Of this amount, \$62,804 (restricted net assets) represents cash held by Beaufort County for debt service payments, impact fees, and 1% fees. Another \$1,556,272 represents the investment in capital assets less depreciation on those assets. The remaining balance of \$166,335 represents unrestricted net assets. Daufuskie's total net assets decreased by \$26,073.
- As of the close of the current fiscal year Daufuskie's governmental funds reported a combined ending fund balance of \$205,998, an increase of \$121,936. This increase was the result of Daufuskie's increase in tax revenue during the year due to delinquent collections.

### **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 four 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. 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 \$1,785,411 and \$1,811,484 for 2011 and 2010, respectively. The following table reflects the condensed government-wide statement of net assets.

	<b>DAUFUSKIE ISLAND FIRE DISTRICT NET ASSETS</b>	
	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
Current and Other Assets	\$ 250,614	\$ 197,911
Capital Assets	1,556,272	1,633,128
<b>Total Assets</b>	<b>1,806,886</b>	<b>1,831,039</b>
Long-term Liabilities Outstanding	21,475	19,555
<b>Total Liabilities</b>	<b>21,475</b>	<b>19,555</b>
<b>Net Assets</b>		
Investment in Capital Assets, Net of Related Debt	1,556,272	1,633,128
Unrestricted	166,335	132,214
Restricted	62,804	46,142
<b>Total Net Assets</b>	<b>\$ 1,785,411</b>	<b>\$ 1,811,484</b>

The largest portion of Daufuskie's net assets \$1,556,272 (87 percent) reflects its investment in capital assets less the accumulated depreciation on capital assets. New assets added in year 2011 include \$5,000 for lockers donated and \$11,238 for paving the parking lot. These capital assets are not available for future spending. At June 30, 2011, Daufuskie had outstanding long-term liabilities of \$21,475 that represented the liability for accrued vacation leave. There was no general obligation debt. The \$62,804 (3.5 percent) represents the assets restricted for payment of debt and impact fees. The remaining net assets of \$166,335 (9.5 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 decreased by \$26,073. Key elements of this increase are as shown in the following table.

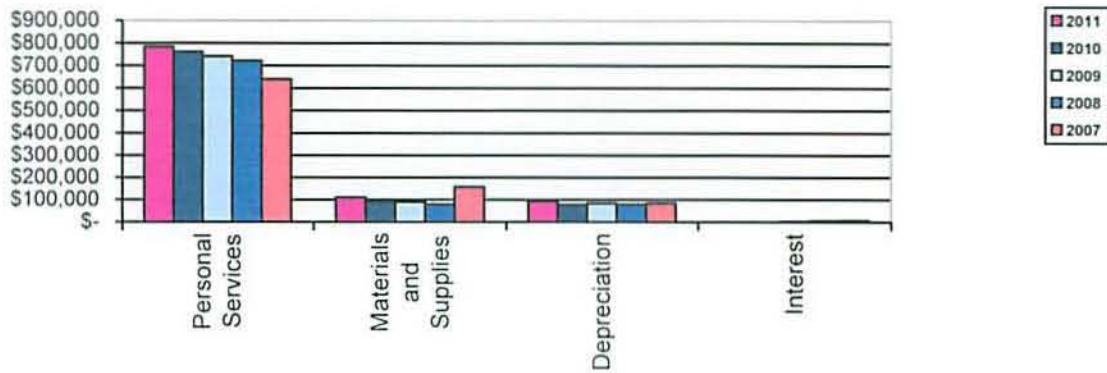
<b>DAUFUSKIE ISLAND FIRE DISTRICT CHANGE IN NET ASSETS</b>		
	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
<b>Expenses</b>		
Public Safety - Fire Protection		
Personnel	\$ 784,333	\$ 762,712
Materials and Services	109,919	92,270
Depreciation	93,094	77,539
Total expenses	<u>987,346</u>	<u>932,521</u>
<b>General Revenues</b>		
Taxes	931,592	932,646
Fees	21,122	4,506
Miscellaneous	8,559	140,386
Total general revenues	<u>961,273</u>	<u>1,077,538</u>
Change in net assets	(26,073)	145,017
Net assets – beginning	<u>1,811,484</u>	<u>1,666,467</u>
Net assets – ending	<u>\$ 1,785,411</u>	<u>\$ 1,811,484</u>

#### Highlights

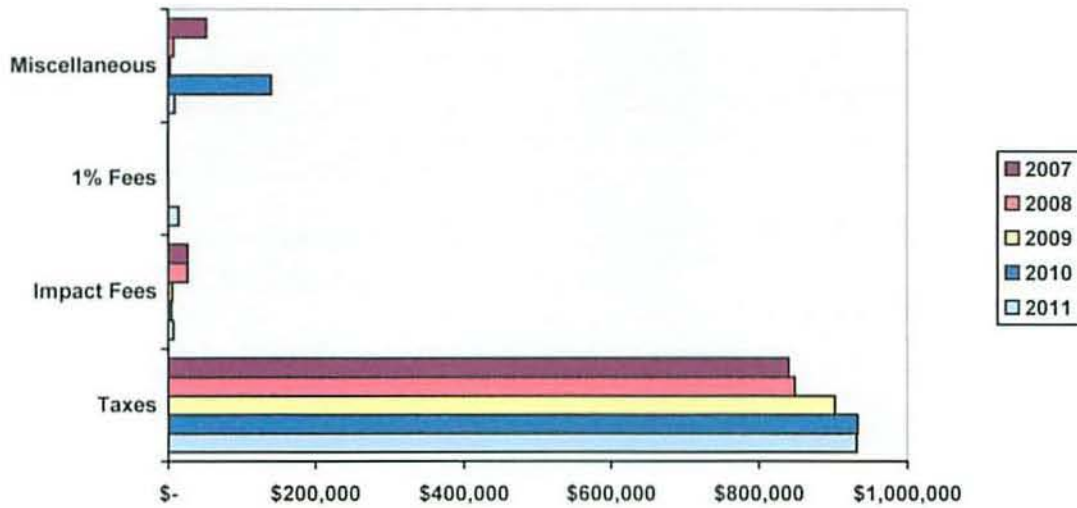
- Personnel are up due to normal promotions and longevity as provided in the budget.
- Materials and Services are up due to the inclusion of the 1% fund in the amount of \$13,167.
- Depreciation is up due to the increase in equipment over the past two years.
- Fees have increased due to the addition of revenue from the one percent fee.
- Miscellaneous revenues are down because of the prior year donation of radios from Beaufort County in the amount of \$134,515.



### Expenses – Governmental Activities



### Revenues by Source – Governmental Activities



	Taxes	Impact Fees	1% Fees	Miscellaneous
2007	\$839,992	\$26,262	\$-	\$52,342
2008	\$848,229	\$26,278	\$-	\$7,253
2009	\$902,116	\$5,355	\$-	\$2,668
2010	\$932,646	\$4,506	\$-	\$140,386
2011	\$931,592	\$6,955	\$14,167	\$8,559

## 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 \$205,998, an increase of \$121,936. The major governmental funds consist of the general fund, the debt service fund, the impact fund, and the one percent fee fund. This increase can be attributed to an increase of \$105,274 in the general fund, an increase of \$6,955 in the impact fund, an increase of \$8,707 in the debt service fund, and an increase of \$1,000 in the one percent fee fund.

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 \$143,194 is unreserved and represents 16% 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, 2011 amounts to \$1,556,272 (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 2011 include \$5,000 for donated lockers and \$11,238 for parking lot paving. Depreciation expense was \$93,094 for the year.

	Governmental Activities	
	2011	2010
Land and Improvements	\$ 36,048	\$ 36,048
Buildings and Improvements	835,936	854,537
Leasehold Improvements	7,892	9,058
Furniture and Equipment	161,066	174,516
Vehicles	515,330	558,969
Total	\$ 1,556,272	\$ 1,633,128

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.

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
Vacation Leave Accrued	\$ 21,475	\$ 19,555
Total	\$ 21,475	\$ 19,555

### **Economic Factors and Next Year's Budgets**

The 2011-2012 approved operations budget of \$942,309 is to be funded with a tax levy of 31.74 mills estimated to raise \$946,550 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, 2011**

**ASSETS**

Cash	\$ 176,015
Accounts Receivable - Net of Allowances	73,815
Due from Beaufort County	(9,875)
Prepaid Expenses	10,659
Capital Assets, not being depreciated	36,048
Capital Assets, being depreciated	1,520,224
Total Assets	<u>\$ 1,806,886</u>

**LIABILITIES**

Accrued Vacation Leave	\$ 21,475
Total Liabilities	<u>21,475</u>

**NET ASSETS**

Unrestricted	166,335
Restricted for Debt Service	40,967
Restricted for Impact Fund	20,837
Restricted for 1% fee	1,000
Investment in capital assets, net of related debt	1,556,272
Total Net Assets	<u>1,785,411</u>
Total Liabilities and Net Assets	<u>\$ 1,806,886</u>

**DAUFUSKIE ISLAND FIRE DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

**EXPENSES**

Public Safety - Fire Protection	
Personnel	\$ 784,333
Materials and Services	109,919
Depreciation	93,094
Total Program Expenses	<u>987,346</u>

**GENERAL REVENUES**

Taxes	931,592
Fees	21,122
Miscellaneous	8,559
Total General Revenues	<u>961,273</u>
 Increase in Net Assets	 (26,073)
 Net Assets, Beginning of year	 <u>1,811,484</u>
Net Assets, End of year	<u>\$ 1,785,411</u>

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

**DAUFUSKIE ISLAND FIRE DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<b>GOVERNMENTAL FUND TYPES</b>				<b>TOTAL</b>
	<b>GENERAL FUND</b>	<b>DEBT SERVICE FUND</b>	<b>IMPACT FUND</b>	<b>1% FEE FUND</b>	
<b>ASSETS</b>					
Cash	\$ 176,015	\$ -	\$ -	\$ -	\$ 176,015
Receivables-Net of Allowances	73,815	-	-	-	73,815
Due from Beaufort County	(72,679)	40,967	20,837	1,000	(9,875)
Prepaid Expenses	10,659	-	-	-	10,659
Total Assets	<u>\$ 187,810</u>	<u>\$ 40,967</u>	<u>\$ 20,837</u>	<u>\$ 1,000</u>	<u>\$ 250,614</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Deferred Property Taxes	\$ 44,616	\$ -	\$ -	\$ -	\$ 44,616
Total Liabilities	<u>44,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,616</u>
<b>FUND BALANCES</b>					
Unassigned	143,194	-	-	-	143,194
Restricted	-	40,967	20,837	1,000	62,804
Total Fund Balances	<u>143,194</u>	<u>40,967</u>	<u>20,837</u>	<u>1,000</u>	<u>205,998</u>
Total Liabilities and Fund Balances	<u>\$ 187,810</u>	<u>\$ 40,967</u>	<u>\$ 20,837</u>	<u>\$ 1,000</u>	<u>\$ 250,614</u>

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

**DAUFUSKIE ISLAND FIRE DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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

Total fund balances for governmental funds	\$	205,998
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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 \$303,461 accumulated depreciation		835,936	
Leasehold improvements, net of \$9,608 accumulated depreciation		7,892	
Vehicles, net of \$421,973 accumulated depreciation		515,330	
Furniture and equipment, net of \$147,843 accumulated depreciation		<u>161,066</u>	
Total Capital Assets			1,556,272

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.		44,616
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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, 2011 are:

Accrued Vacation Leave		<u>(21,475)</u>	
Total Long-Term Liabilities			<u>(21,475)</u>

Total net assets of governmental activities	\$	<u>1,785,411</u>
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**DAUFUSKIE ISLAND FIRE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2011**

	GOVERNMENTAL FUND TYPES				TOTAL
	GENERAL	DEBT SERVICE	IMPACT FUND	1% FEE FUND	
<b>REVENUES</b>					
Taxes	\$ 992,118	\$ 8,707	\$ -	\$ -	\$ 1,000,825
Impact Fees	-	-	6,955	14,167	21,122
Miscellaneous	3,559	-	-	-	3,559
Total General Revenues	<u>995,677</u>	<u>8,707</u>	<u>6,955</u>	<u>14,167</u>	<u>1,025,506</u>
<b>EXPENDITURES</b>					
Public Safety - Fire Protection					
Current					
Personnel	782,413	-	-	-	782,413
Materials and Services	95,753	-	-	13,167	108,920
Capital Outlay	12,237	-	-	-	12,237
Total Expenditures	<u>890,403</u>	<u>-</u>	<u>-</u>	<u>13,167</u>	<u>903,570</u>
Net Change in Fund Balances	105,274	8,707	6,955	1,000	121,936
Fund Balances, Beginning of year	37,920	32,260	13,882	-	84,062
Fund Balances, End of year	<u>\$ 143,194</u>	<u>\$ 40,967</u>	<u>\$ 20,837</u>	<u>\$ 1,000</u>	<u>\$ 205,998</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, 2011**

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	\$ 121,936
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 (\$11,238) was less than depreciation (\$93,094) in the current period.	(81,856)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(64,233)
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>(1,920)</u>
Total change in net assets of governmental activities	<u>\$ (26,073)</u>

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

**DAUFUSKIE ISLAND FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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, 2011**

**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.

The *1% fee fund* contains funds collected from insurance companies and made available to the District for certain specific purposes. Those purposes include retirement and insurance, training and education, and recruitment and retention.

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, 2011**

**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, 2011**

**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 \$21,475 has been recorded to reflect the accrued vacation leave liability for each eligible employee and includes 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**

The GASB has issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The following categories of fund balance are now being used in the fund level financial statements of the government funds:

***Restricted Fund Balance***

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation.

***Unassigned Fund Balance***

The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the general fund.

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.

**DAUFUSKIE ISLAND FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Assets, Liabilities, and Net Assets or Equity - Continued**

**Fund Equity – Continued**

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

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, 2011**

**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 2010 was set at 30.71 mills for the general 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, 2011 were \$176,015 and the bank balance was \$194,323. 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, 2011 were as follows:

	<u>Fund Statements</u>	<u>Government-wide Statements</u>
Taxes Receivable	\$ 77,624	\$ 77,624
Total Accounts Receivable	77,624	77,624
Allowance for Doubtful Accounts	(3,809)	(3,809)
Receivables-net of allowances	<u>\$ 73,815</u>	<u>\$ 73,815</u>

The fund statements include deferred revenues of \$44,616 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, 2011**

**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, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</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	11,238	-	1,139,397
Leasehold improvements	17,500	-	-	17,500
Furniture and equipment	303,909	5,000	-	308,909
Vehicles	937,303	-	-	937,303
Total capital assets being depreciated	<u>2,386,871</u>	<u>16,238</u>	<u>-</u>	<u>2,403,109</u>
Less accumulated depreciation for:				
Buildings and improvements	273,622	29,839	-	303,461
Leasehold improvements	8,442	1,166	-	9,608
Furniture and equipment	129,393	18,450	-	147,843
Vehicles	378,334	43,639	-	421,973
Total accumulated depreciation	<u>789,791</u>	<u>93,094</u>	<u>-</u>	<u>882,885</u>
Total capital assets being depreciated, net	<u>1,597,080</u>	<u>(76,856)</u>	<u>-</u>	<u>1,520,224</u>
Governmental activities capital assets, net	<u>\$ 1,633,128</u>	<u>\$ (76,856)</u>	<u>\$ -</u>	<u>\$ 1,556,272</u>

Depreciation expense was \$93,094 for the year ended June 30, 2011. This amount was allocated to the functional departments as follows:

<u>Governmental Activities</u>		
Public Safety Fire Protection		\$ 93,094
Total		<u>\$ 93,094</u>

**NOTE 6 LONG-TERM OBLIGATIONS**

A schedule of changes on long-term obligations follows:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Annual Leave	\$ 19,555	\$ 1,920	\$ -	\$ 21,475
Total	<u>\$ 19,555</u>	<u>\$ 1,920</u>	<u>\$ -</u>	<u>\$ 21,475</u>

**DAUFUSKIE ISLAND FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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 2010 was \$30,178,026. The computation of legal debt limits is as follows:

Assessed value (\$30,178,026 X 8%)	\$ 2,414,242
General obligation debt at June 30, 2011	-
Excess of debt limit over general obligation debt	<u>\$ 2,414,242</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**

**Description of Plan**

As a condition of employment, all eligible Fire District employees are required to participate in a pension plan. All eligible employees must belong to the South Carolina Retirement System (SCRS). The plan is a cost-sharing multiple-employer Public Employee Retirement System (PERS) administered by the Retirement Division of the State Budget and Control Board. Retirement costs are funded by withholding from the employees' salaries, and by a contribution from the Fire District of a percentage of the employee's salaries. The Retirement System is administered by the South Carolina Retirement System, which is a state agency. The Fire District has no fiduciary responsibility for or further liability for the retirement plan beyond their current contributions. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System and Police Officers Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29211-1960.

**Basic Provisions**

Benefit provisions are established under the authority of Title 9 of the South Carolina Code of Laws. Under current statutes pertaining to the SCRS, member employees who retire at age 65 or after 28 years of credited services are entitled to a annual full service retirement benefit, payable monthly for life, equal to 1.82 percent of the average final compensation (average compensation over the last three years of credited service) time years of credited service. A member with at least 25 years of credited services who terminates employment may continue to pay employee and employer contributions until 28 years of credited services credit is reached. The contributions will be made through the most recent employer on a regular basis and remitted to the South Carolina Retirement System.

Member employees who are least 60 years of age may elect early retirement in which case the full service benefit is reduced by 5 percent for each year the employee's age at retirement is less than 65. In either case, any unrecovered contributions are payable upon death and cost of living adjustments are evaluated annually on an ad hoc basis. Full service or early retirees may elect other optional methods of benefit distributions, including lump sum distribution, benefit levels coordinated with the retiree's social security benefits and distributions to a named beneficiary. Benefits are fully vested on reaching 5 years of service. The SCRS also provide life insurance, survivor and disability benefits to all member employees.

**DAUFUSKIE ISLAND FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 7 PENSION PLAN OBLIGATIONS – (CONTINUED)**

**Funding Policy**

*South Carolina Retirement System (SCRS)*

Effective July 1, 2007, the employer contribution rate became 9.39 percent which includes 0.15 percent towards group life insurance. Fire District contributions to SCRS for the years ended June 30, 2009, 2010, and 2011 were \$50,587, \$50,718, and \$60,756, respectively, equal to the actuarially required contributions for each year.

**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 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	\$ 926,299
Equipment purchased from cash reserves on hand	11,238
Donations of lockers	<u>5,000</u>
Final Budget	<u>\$ 942,537</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, 2011**

GENERAL FUND				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES</b>				
Taxes	\$ 896,179	\$ 896,179	\$ 992,118	\$ 95,939
Miscellaneous	-	5,000	3,559	(1,441)
Total General Revenues	<u>896,179</u>	<u>901,179</u>	<u>995,677</u>	<u>94,498</u>
<b>EXPENDITURES</b>				
<b>Public Safety - Fire Protection</b>				
<b>Current</b>				
<u>Personnel</u>				
Salaries	574,326	574,326	552,103	22,223
Payroll Taxes	43,936	43,936	41,271	2,665
Retirement	63,922	63,922	58,706	5,216
Group Health Insurance	118,080	118,080	96,501	21,579
Workman's Compensation	34,364	34,364	33,512	852
Unemployment Taxes	1,092	1,092	320	772
Total Personnel	<u>835,720</u>	<u>835,720</u>	<u>782,413</u>	<u>53,307</u>
<u>Materials and Services</u>				
Advertising	100	100	100	-
Printing	100	100	214	(114)
Postage	200	200	202	(2)
Telephone and Fax	4,200	4,200	3,981	219
Electricity	7,500	7,500	5,619	1,881
Water and Sewer	1,000	1,000	697	303
Maintenance Contract	200	200	140	60
Repairs to Equipment	9,000	9,000	9,503	(503)
Equipment Maintenance	2,500	2,500	1,071	1,429
Repairs to Facilities	6,000	6,000	4,560	1,440
Equipment Rental	4,100	4,100	4,085	15
Professional/Legal Services	8,000	8,000	14,107	(6,107)
Medical/Annual Physicals	2,500	2,500	3,641	(1,141)
Per Diem	500	500	1,187	(687)
Transportation Costs/Barge	900	900	1,488	(588)
Pest Control	350	350	360	(10)
Dues and Subscriptions	1,800	1,800	1,743	57
Commercial Package/Equipment	14,992	14,992	14,992	-
Commercial Umbrella	1,355	1,355	1,355	-
Supplies	4,000	4,000	2,803	1,197
Uniforms	5,000	5,000	6,763	(1,763)
Small Tools and Appliances	700	700	397	303
Educational	1,200	1,200	1,023	177
Training, Registration and Lodging	1,000	1,000	1,659	(659)
Fire Prevention	500	500	499	1
Training for Officers/Instructors	200	200	405	(205)
Photocopy Expenses	100	100	-	100
Other Office Supplies	400	400	726	(326)
Fuels and Lubricants	7,200	7,200	7,299	(99)
Vehicle Repair Parts	4,982	4,982	5,134	(152)
Total Materials and Services	<u>90,579</u>	<u>90,579</u>	<u>95,753</u>	<u>(5,174)</u>
Capital Outlay	-	16,238	12,237	4,001
Total Expenditures	<u>926,299</u>	<u>942,537</u>	<u>890,403</u>	<u>52,134</u>
Net Change in Fund Balances	(30,120)	(41,358)	105,274	146,632
Fund Balances, Beginning of year	19,585	14,085	37,920	23,835
Fund Balances, End of year	<u>\$ (10,535)</u>	<u>\$ (27,273)</u>	<u>\$ 143,194</u>	<u>\$ 170,467</u>

**COMPLIANCE SECTION**



**CROWLEY WECHSLER & ASSOCIATES LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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Richard D. Crowley, CPA, CVA  
Lisa T. Wechsler, CPA

Member:  
American Institute of CPAs  
South Carolina Association of CPAs

**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, 2011, and have issued our report thereon dated November 16, 2011. 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.

*Crowley Wechsler & Associates LLC*

Crowley Wechsler & Associates LLC

Beaufort, South Carolina

November 16, 2011