



DAUFUSKIE ISLAND FIRE DISTRICT

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BEAUFORT COUNTY FINANCE

November 28, 2016

Ms. Alicia Holland, CPA
Chief Financial Officer
Beaufort County Finance Department
P.O. Drawer 1228
Beaufort, SC 29901-1228

Dear Alicia:

Enclosed is a copy of our Annual Financial Report for the year ended June 30, 2016. Please advise if you have any questions or need any additional copies.

Sincerely,

A handwritten signature in black ink that reads "E.A. Boys".

Edward A. Boys
District Chief

DAUFUSKIE ISLAND FIRE DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

**DAUFUSKIE ISLAND FIRE DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

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FINANCIAL SECTION



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

CROWLEY WECHSLER & ASSOCIATES LLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Daufuskie Island Fire District
Daufuskie Island, South Carolina

We have audited the accompanying financial statements of the governmental activities and each major fund of Daufuskie Island Fire District (Daufuskie), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Daufuskie's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Daufuskie, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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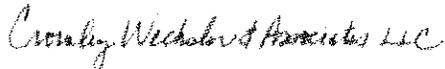
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and historical pension information on pages 3-8 and 30-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016, on our consideration of Daufuskie's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Daufuskie's internal control over financial reporting and compliance.



Crowley Wechsler & Associates LLC
Beaufort, South Carolina
November 10, 2016

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, 2016.

Financial Highlights

- The assets of Daufuskie exceed its liabilities at the close of the most recent fiscal year by \$760,632 (net position). Of this amount, \$43,376 (restricted net position) represents cash held by Beaufort County for capital and 1% fees. Another \$1,279,374 represents the investment in capital assets less depreciation on those assets. (\$562,118) represents the deficit in unrestricted net position. The net position increased \$17,865 for the year ended June 30, 2016.
- As of the close of the current fiscal year Daufuskie's governmental funds reported a combined ending fund balance of \$252,332, an increase of \$109,890.

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 position presents information on all of Daufuskie's assets, deferred inflows/outflow of resources, and liabilities with the difference reported as net position. Over time, increases and decreases in the net position 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 position changed during the most recent fiscal year. Changes in net position 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 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 certain *required supplementary information* and a report on compliance and on internal control over financial reporting. Daufuskie also presents historical pension information as required supplementary information that provides data over a ten year period relating to net pension liability and contributions.

Government-wide Financial Analysis. As noted earlier, net position 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 \$760,632 and \$742,767 for 2016 and 2015, respectively. The following table reflects the condensed government-wide statement of net position.

	DAUFUSKIE ISLAND FIRE DISTRICT NET POSITION	
	Governmental Activities	
	2016	2015
Current and Other Assets	\$ 417,046	\$ 300,047
Capital Assets	1,279,374	1,371,970
Total Assets	1,696,420	1,672,017
Deferred Outflows of Resources	115,312	102,284
Current Liabilities	-	-
Long-term Liabilities Outstanding	1,051,100	927,345
Total Liabilities	1,051,100	927,345
Deferred Inflows of Resources	-	104,189
Net Position		
Unrestricted	(562,118)	(631,112)
Restricted	43,376	1,909
Net Investment in Capital Assets	1,279,374	1,371,970
Total Net Position	\$ 760,632	\$ 742,767

The largest portion of Daufuskie's net position \$1,279,374 reflects its investment in capital assets less the accumulated depreciation on capital assets. These capital assets are not available for future spending. Daufuskie's unrestricted net position \$(562,118), reflects the net pension liability of \$1,026,261 and the liability for compensated absences of \$24,839 which are reported in long-term liabilities outstanding. The \$43,376 represents the assets restricted for one percent fees and capital.

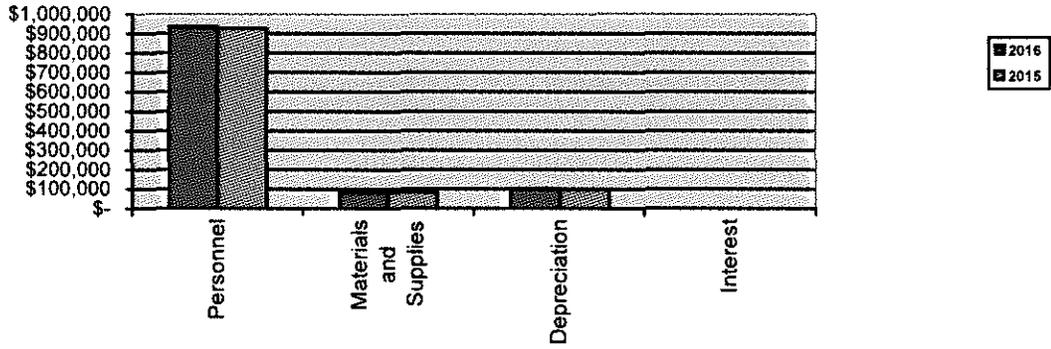
Governmental activities. Daufuskie's total net position increased by \$17,865. Key elements of this decrease are as shown in the following table.

DAUFUSKIE ISLAND FIRE DISTRICT CHANGE IN NET POSITION		
	Governmental Activities	
	2016	2015
Expenses		
Public Safety - Fire Protection		
Personnel	\$ 934,987	\$ 926,772
Materials and Services	84,420	83,835
Depreciation	103,235	99,474
Total expenses	<u>1,122,642</u>	<u>1,110,081</u>
General Revenues		
Taxes	1,117,249	1,052,105
Fees	16,478	18,201
Miscellaneous	6,780	65
Total general revenues	<u>1,140,507</u>	<u>1,070,371</u>
Change in net position	17,865	(39,710)
Net Position – beginning	742,767	1,684,863
Prior Period Restatement	-	(902,386)
Net Position – ending	<u>\$ 760,632</u>	<u>\$ 742,767</u>

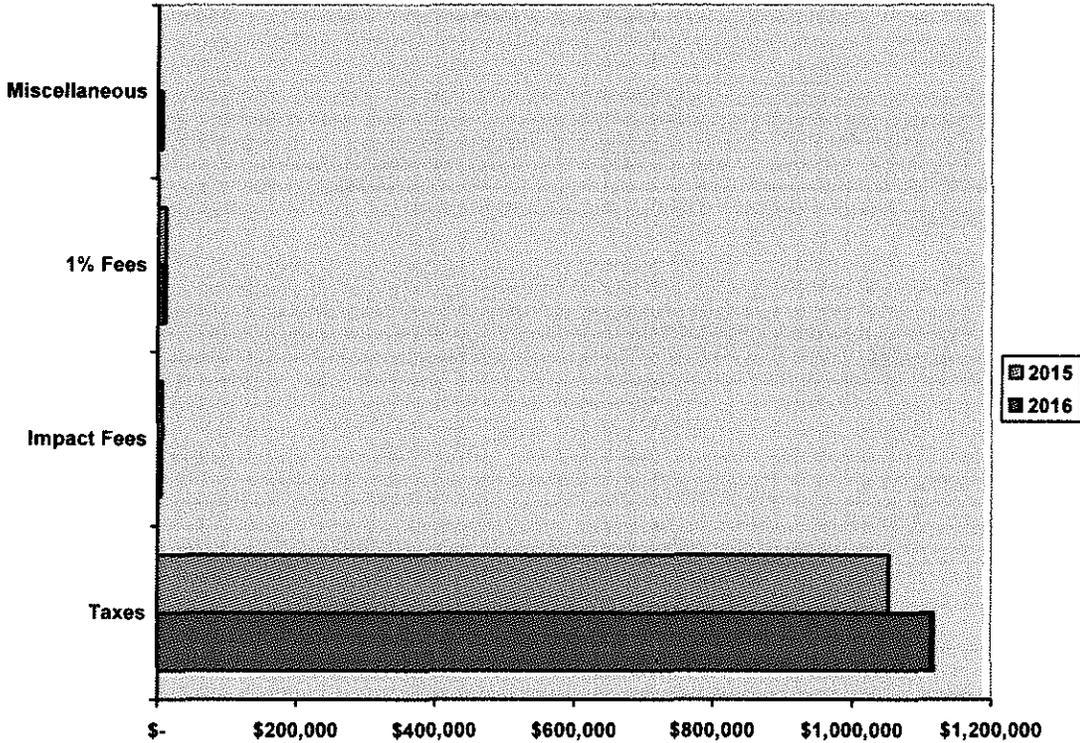
Highlights

- Personnel expenses are up due to cost of living adjustments.
- Materials and services are consistent with prior year amounts.
- Depreciation is up slightly due to breathing apparatus purchased in March 2015.
- Fees are down due to a decrease in impact fees of \$1,999 and an increase of \$276 in 1% funds.
- Taxes are up due to increase in tax millage from 56.72 mills (includes 2 mills for debt service) in year 2015 to 58.98 mills (includes 2 mills for debt service) in year 2016.

Expenses – Governmental Activities



Revenues by Source – Governmental Activities



	Taxes	Impact Fees	1% Fees	Miscellaneous
2015	\$1,052,105	\$6,784	\$11,417	\$65
2016	\$1,117,249	\$4,785	\$11,693	\$6,780

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, 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 \$252,332, an increase of \$109,890. 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 \$68,423 in the general fund, an increase of \$4,785 in the impact fund, an increase of \$35,278 in the debt service fund, and an increase of \$1,404 in the one percent fee fund.

As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. The general fund balance of \$208,956 is unassigned and represents 21% 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, 2016 amounts to \$1,279,374 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, leasehold improvements, furniture and equipment, and vehicles. Depreciation expense was \$103,235 for 2016 and \$99,474 for 2015.

DAUFUSKIE ISLAND FIRE DISTRICT CAPITAL ASSETS - NET OF DEPRECIATION

	Governmental Activities	
	2016	2015
Land and Improvements	\$ 36,048	\$ 36,048
Buildings and Improvements	686,123	716,085
Leasehold Improvements	21,317	23,549
Furniture and Equipment	129,919	152,487
Vehicles	405,967	443,801
Total	<u>\$ 1,279,374</u>	<u>\$ 1,371,970</u>

Additional information on Daufuskie's capital assets can be found in Note 5 page 20.

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 and net pension liability.

DAUFUSKIE ISLAND FIRE DISTRICT LONG-TERM DEBT OUTSTANDING

	Governmental Activities	
	2016	2015
Net Pension Liability	\$ 1,026,261	\$ 900,451
Vacation Leave Accrued	24,839	26,894
Total	<u>\$ 1,051,100</u>	<u>\$ 927,345</u>

Economic Factors and Next Year's Budgets

The 2016-2017 approved operations budget of \$1,142,613 is to be funded with a tax levy of 58.44 mills estimated to raise \$1,142,613 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 POSITION
JUNE 30, 2016**

ASSETS	
Cash	\$ 367,165
Accounts Receivable - Net of Allowances	199,977
Due from (to) Beaufort County	(150,096)
Capital Assets, not being depreciated	36,048
Capital Assets, being depreciated	1,243,326
Total Assets	<u>1,696,420</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows for Net Pension Liability	<u>115,312</u>
Total Deferred Outflows of Resources	<u>115,312</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 1,811,732</u>
 LIABILITIES	
Noncurrent Liabilities	
Due within one year	\$ 2,424
Due after one year	1,048,676
Total Liabilities	<u>1,051,100</u>
 NET POSITION	
Unrestricted	(562,118)
Restricted for Impact Fund	6,340
Restricted for 1% fee	1,758
Restricted for Capital	35,278
Net Investment in capital assets	1,279,374
Total Net Position	<u>760,632</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 1,811,732</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, 2016**

EXPENSES

Public Safety - Fire Protection	
Personnel	\$ 934,987
Materials and Services	84,420
Depreciation	103,235
Total Program Expenses	<u>1,122,642</u>

GENERAL REVENUES

Taxes	1,117,249
Fees	16,478
Miscellaneous	6,780
Total General Revenues	<u>1,140,507</u>
 Change in Net Position	 17,865
Net Position, Beginning of year	742,767
Net Position, End of year	<u>\$ 760,632</u>

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

**DAUFUSKIE ISLAND FIRE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	GOVERNMENTAL FUND TYPES				TOTAL
	GENERAL FUND	DEBT SERVICE FUND	IMPACT FUND	1% FEE FUND	
ASSETS					
Cash	\$ 367,165	\$ -	\$ -	\$ -	\$ 367,165
Receivables-Net of Allowances	193,384	6,593	-	-	199,977
Due from (to) Beaufort County	(192,464)	34,270	6,340	1,758	(150,096)
Total Assets	<u>\$ 368,085</u>	<u>\$ 40,863</u>	<u>\$ 6,340</u>	<u>\$ 1,758</u>	<u>\$ 417,046</u>
LIABILITIES					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue-Property Taxes	159,129	5,585	-	-	164,714
Total Deferred Inflows of Resources	<u>159,129</u>	<u>5,585</u>	<u>-</u>	<u>-</u>	<u>164,714</u>
FUND BALANCES					
Unassigned	208,956	-	-	-	208,956
Restricted	-	35,278	6,340	1,758	43,376
Total Fund Balances	<u>208,956</u>	<u>35,278</u>	<u>6,340</u>	<u>1,758</u>	<u>252,332</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 368,085</u>	<u>\$ 40,863</u>	<u>\$ 6,340</u>	<u>\$ 1,758</u>	<u>\$ 417,046</u>

**DAUFUSKIE ISLAND FIRE DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

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

Total fund balances for governmental funds		\$ 252,332
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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 \$453,274 accumulated depreciation	686,123	
Leasehold improvements, net of \$17,483 accumulated depreciation	21,317	
Vehicles, net of \$587,621 accumulated depreciation	405,967	
Furniture and equipment, net of \$238,117 accumulated depreciation	129,919	
Total Capital Assets		1,279,374

Deferred outflows and inflows of resources represents amounts applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources:		
Related to pensions	115,312	
Deferred inflows of resources:		
Related to receivables	164,714	
Total deferred outflows and inflows of resources		280,026

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 position.

Balances at June 30, 2016 are:

Accrued Vacation Leave	(24,839)	
Net Pension Liability	(1,026,261)	
Total Long-Term Liabilities		(1,051,100)

Total net position of governmental activities		\$ 760,632
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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 BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2016**

	GOVERNMENTAL FUND TYPES				TOTAL
	GENERAL	DEBT SERVICE	IMPACT FUND	1% FEE FUND	
REVENUES					
Taxes	\$ 1,072,081	\$ 38,059	\$ -	\$ -	\$ 1,110,140
Fees	-	-	4,785	11,693	16,478
Miscellaneous	1,780	-	-	-	1,780
Total General Revenues	<u>1,073,861</u>	<u>38,059</u>	<u>4,785</u>	<u>11,693</u>	<u>1,128,398</u>
EXPENDITURES					
Public Safety - Fire Protection					
Current					
Personnel	928,449	-	-	-	928,449
Materials and Services	74,131	-	-	10,289	84,420
Capital Outlay	5,639	-	-	-	5,639
Total Expenditures	<u>1,008,219</u>	<u>-</u>	<u>-</u>	<u>10,289</u>	<u>1,018,508</u>
Excess (deficiency) of revenues over expenditures	<u>65,642</u>	<u>38,059</u>	<u>4,785</u>	<u>1,404</u>	<u>109,890</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	2,781	-	-	-	2,781
Transfers Out	-	(2,781)	-	-	(2,781)
Total Other Financing Sources (Uses)	<u>2,781</u>	<u>(2,781)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balances	68,423	35,278	4,785	1,404	109,890
Fund Balances, Beginning of year	140,533	-	1,555	354	142,442
Fund Balances, End of year	<u>\$ 208,956</u>	<u>\$ 35,278</u>	<u>\$ 6,340</u>	<u>\$ 1,758</u>	<u>\$ 252,332</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, 2016**

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

Net change in fund balances -- total governmental funds	\$ 109,890
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 that capital outlay (\$10,639) is less than depreciation (\$103,235).	(92,596)
Governmental funds reports pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. Pension contributions	(8,593)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	7,109
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>2,055</u>
Total change in net position from governmental activities	<u><u>\$ 17,865</u></u>

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

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by intergovernmental revenues and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting Entity

Daufuskie Island Fire District (Daufuskie) was created in 1989 for the purpose of providing fire protection to the residents of Daufuskie Island located in Beaufort County, South Carolina. 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 Daufuskie.

The accompanying financial statements present the combined financial positions and combined results of operations of the various fund types controlled by Daufuskie. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. Daufuskie is not reporting any component units as described above.

Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Daufuskie reports only governmental activities, as there are no business-type activities or component units.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about Daufuskie funds, including its fiduciary funds and blended component units. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major governmental funds with each displayed in a separate column. All remaining governmental funds are aggregated and reported in a separate column. Major individual governmental funds are reported as separate columns in the fund financial statements.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation – Fund Financial Statements – Continued

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.

Daufuskie does not report any proprietary or fiduciary funds at the present time.

During the course of operations, Daufuskie has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts and allocated to the various programs as indirect cost allocations. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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.

The 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, Daufuskie 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus and Basis of Accounting – Continued

Operating grants and contributions and client fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by Daufuskie.

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. An annual budget for the special revenue funds are not adopted as sufficient budgetary control is achieved through restrictions included in the various funding arrangements. All annual appropriations lapse at fiscal year-end.

The appropriated budget is prepared by fund. The commissioners may make transfers of appropriations within the accounts of the fund. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The commissioners may make supplemental budgetary appropriations throughout the year upon approval of Beaufort County Council. There were no supplemental budgetary appropriations made during the year.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for good and services (i.e., purchase order, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under executor contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances

Cash and Cash Equivalents

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.

Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include buildings, equipment, and vehicles, are reported in the net investment in capital assets on the statement of financial position. 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.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses/expenditures) until then. Daufuskie did not have any items that qualify for reporting in this category. Daufuskie reports deferred outflows related to its net pension liability in the statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. Daufuskie has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenues*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumptions

Sometimes Daufuskie will fund outlays for a particular purposes from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide, a flow assumption must be made about the order in which the resources are considered to be applied. It is Daufuskie's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

Sometimes Daufuskie will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is Daufuskie's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitation requiring the use of resources for specific resources. Daufuskie itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of Daufuskie's highest level of decision-making authority. The Board of Commissioners is the highest level of decision-making authority for Daufuskie that can, by vote prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another policy) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by Daufuskie for specific purposes but do not meet the criteria to be classified as committed. Daufuskie may assign fund balance as deemed necessary. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenses/Expenditures

Property taxes

The County Ordinance provides for the taxation of all real and personal property located within Daufuskie limits on the first day of January. Motor vehicle taxes are billed and collected by the County Treasurer on a monthly basis. Other personal and real property taxes are levied by the County after September of each year and become due and payable immediately upon receipt by the taxpayer. Real property taxes are delinquent after January 15th. Assessed property is subject to lien one year from the levy date if taxes remain unpaid. The property tax rate approved by ordinance for fiscal year 2016 is 56.98 mills for operations and 2.0 mills for debt service fund.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits: The deposits for Daufuskie at June 30, 2016 were \$367,165 and the bank balance was \$373,015. The bank balance was fully insured by the FDIC insurance and pledged securities.

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.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 were as follows:

	Fund Statements	Government-wide Statements
Taxes Receivable	\$ 200,426	\$ 200,426
Accounts Receivable - GF	5,526	5,526
Total Accounts Receivable	205,952	205,952
Allow ance for Doubtful Accounts	(5,975)	(5,975)
Receivables-net of allow ances	<u>\$ 199,977</u>	<u>\$ 199,977</u>

The fund statements include deferred inflows of revenues of \$164,714 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.

NOTE 5 PROPERTY AND EQUIPMENT

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

Governmental Activities	June 30, 2015	Increases	Decreases	June 30, 2016
<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	1,139,397	-	-	1,139,397
Leasehold improvements	38,800	-	-	38,800
Furniture and equipment	368,036	-	-	368,036
Vehicles	1,026,244	10,639	43,295	993,588
Total capital assets being depreciated	<u>2,572,477</u>	<u>10,639</u>	<u>43,295</u>	<u>2,539,821</u>
Less accumulated depreciation for:				
Buildings and improvements	423,312	29,962		453,274
Leasehold improvements	15,251	2,232		17,483
Furniture and equipment	215,549	22,568		238,117
Vehicles	582,443	48,473	43,295	587,621
Total accumulated depreciation	<u>1,236,555</u>	<u>103,235</u>	<u>43,295</u>	<u>1,296,495</u>
Total capital assets being depreciated, net	<u>1,335,922</u>	<u>(92,596)</u>	<u>-</u>	<u>1,243,326</u>
Governmental activities capital assets, net	<u>\$ 1,371,970</u>	<u>\$ (92,596)</u>	<u>\$ -</u>	<u>\$ 1,279,374</u>

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 PROPERTY AND EQUIPMENT - CONTINUED

Depreciation expense was \$103,235 for the year ended June 30, 2016. This amount was allocated to the functional departments as follows:

<u>Governmental Activities</u>		
Public Safety Fire Protection		\$ 103,235
Total		<u>\$ 103,235</u>

NOTE 6 LONG-TERM OBLIGATIONS

A schedule of changes on long-term obligations follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Current</u> <u>Portion</u>
Annual Leave	\$ 26,894	\$ -	\$ 2,055	\$ 24,839	\$ 2,424
Net Pension Liability	900,451	195,756	69,946	1,026,261	-
Total	<u>\$ 927,345</u>	<u>\$ 195,756</u>	<u>\$ 72,001</u>	<u>\$ 1,051,100</u>	<u>\$ 2,424</u>

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 2015 was \$19,246,240. The computation of legal debt limits is as follows:

Assessed value (\$19,246,240 X 8%)	\$ 1,539,699
General obligation debt at June 30, 2016	-
Excess of debt limit over general obligation debt	<u>\$ 1,539,699</u>

Operating Leases

Daufuskie has operating leases on its office equipment that vary 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.

Pension Plan

Description of the Entity

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Descriptions

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

In addition to the plans described above, PEBA also administers three single-employer defined benefit pension plans, which are not covered in this report. They are the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), the Retirement System for Judges and Solicitors of South Carolina (JSRS), and the South Carolina National Guard Supplemental Retirement Plan (SCNG).

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA board may adopt and present to the Budget and Control Board for approval an increase in the PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

Required employee contribution rates¹ for fiscal year 2015-2016 are as follows:

PORS	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
Employee Class Two	8.74%	8.41%
Employee Class Three	8.74%	8.41%

Required employer contribution rates¹ for fiscal year 2015-2016 are as follows:

PORS	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
Employer Class Two	13.34%	13.01%
Employer Class Three	13.34%	13.01%
Employer Accidental Death Program	0.20%	0.20%
Employer Incidental Death Benefit	0.20%	0.20%

¹Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Law s.

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the evaluation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for PORS.

	<u>PORS</u>
Actuarial cost method	Entry age normal
Investment rate of return ¹	7.5%
Projected salary increases	4.0% to 10.0% (varies by service) ¹
Benefit adjustments	Lesser of 1% or \$500 annually

¹ includes inflation at 2.75%

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014, valuations for PORS are as follows:

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2015, for PORS are presented as follows:

<u>System</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Employers' Net Pension Liability</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>
PORS	\$ 2,896,657	\$ 1,870,396	\$ 1,026,261	64.57%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the System's notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans funding requirements.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014 actuarial valuations, is based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant Aon Hewitt. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50% assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes 4.75% real rate of return and a 2.75% inflation component.

<u>Asset class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Short Term	5.0%		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	31.0%	7.10%	2.20%
Global Tactical Asset Allocation	10.0%	4.90%	0.49%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

<u>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</u>			
<u>System</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
SCRS	\$ 1,398,094	\$ 1,026,261	\$ 693,983

Pension Expense

Components of collective pension expense reported in the Schedules of Pension Amounts by Employer for the fiscal year ended June 30, 2015, are presented below:

<u>Description</u>	<u>PORS</u>
Service cost (annual cost of current service)	\$ 72,567
Interest on the total pension liability	204,996
Changes in plan benefits	-
Plan administrative costs	913
Plan member contributions	(50,317)
Expected return on plan assets	(139,473)
Recognition of current year amortization - Difference between expected and actual experience	6,904
Recognition of current year amortization - Difference between projected and actual investment earnings	(3,712)
Other	(499)
Total	<u>\$ 91,379</u>

Additional items included in Total Employer Pension Expense in the Schedules of Pension Amounts by Employer are the current period amortized portions of deferred outflows and/or inflows of resources related to changes in employers' proportionate share of the collective net pension liability and differences between actual employer contributions and proportionate share of total plan employer contributions. These two deferrals are specific to cost-sharing multiple-employer defined benefit pension plans as discussed in paragraphs 54 and 55 of GASB 68.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

Deferred Outflows of Resources and Deferred Inflows of Resources

The following schedule reflects the amortization of collective deferred outflows/(inflows) of resources related to pensions outstanding as of June 30, 2015.

	<u>Difference between expected and actual experience</u>	
	PORS	
	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Initial Balance	\$ 30,258	\$ 3,188
Amortization period¹	4.856	4.796
Amortized² period ending June 30,		
2014	\$ (6,231)	-
2015	(6,231)	(665)
2016	(6,231)	(665)
2017	(6,231)	(665)
2018	(5,334)	(665)
2019	-	(528)

	<u>Difference between projected and actual investment earnings</u>	
	PORS	
	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Initial Balance	\$ (130,219)	\$ 111,821
Amortization period³	5	5
Amortized² period ending June 30,		
2014	\$ 26,044	-
2015	26,044	\$ 22,364
2016	26,044	22,364
2017	26,044	22,364
2018	26,043	22,364
2019	-	22,365

¹In accordance with GASB 68, paragraph 71a, the difference between each year's expected and actual experience is required to be amortized over the average remaining service lives of all employees provided with pensions through the plan at June 30.

²Amount amortized and included in pension expense during the measurement period listed.

³In accordance with GASB 68, paragraph 71b, the difference between each year's projected and actual investment earnings is required to be amortized over a closed, 5 year period.

As discussed in paragraph 71b of GASB 68, collective deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods should be aggregated and included as a net collective deferred outflow of resources related to pensions or a net collective deferred inflow of resources related to pensions. Accordingly, the Outstanding Balance of Deferred Outflows of Resources in the Schedules of Pension Amounts by Employer reflects the current net difference between projected and actual pension plan investment earnings

Additional items reported within the Outstanding Balance of Deferred Outflows and Inflows of Resources in the Schedules of Pension Amounts by Employer result from the two cost-sharing multiple-employer defined benefit pension plan-specific deferrals previously discussed in Pension Expense

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

Employer Contributions

Employers' proportionate shares were calculated on the basis of employer contributions actually remitted to the plan for the fiscal year ended June 30, 2015. Employer contributions recognized by the Systems that are not representative of future contribution effort are excluded in the determination of employers' proportionate shares. Examples of employer contributions not representative of future contribution effort are contributions toward the purchase of employee service purchases and employer contributions paid by employees.

The following table provides a reconciliation of employer contributions in the plans' Statement of Changes in Fiduciary Net Position (per the Systems' separately issued financial statements) to the employer contributions used in the determination of employers' proportionate shares of collective pension amounts reported in the Schedules of Employer Allocations.

	<u>PORS</u>
Employer Contributions Reported in SCRS Statement of Changes in Net Position for the fiscal year ended June 30, 2015	\$ 78,382
Deduct: Employer Contributions Not Representative of Future Contribution Effort	<u>(150)</u>
Employer Contributions Used as the Basis for Allocating Employers' Proportionate Shares of Collective Pension Amounts - June 30, 2015 Measurement Date	<u>\$ 78,232</u>

Additional Financial and Actuarial Information

Information contained in these Notes to the Schedules of Employer Allocations and Schedules of Pension Amounts by Employer (Schedules) was compiled from the Systems' audited financial statements for the fiscal year ended June 30, 2015, and the accounting and financial reporting actuarial valuation as of June 30, 2015. Additional financial information supporting the preparation of the Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is available in the Systems' CAFR.

Payables to the Pension Plan

At June 30, 2016, Daufuskie had no outstanding payables for its pension plan.

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 \$24,839 has been recorded to reflect the accrued vacation leave liability for each eligible employee and includes 20% for related payroll costs for taxes and retirement. Compensated absences are paid from the general fund.

**DAUFUSKIE ISLAND FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 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 8 SUBSEQUENT EVENTS

Daufuskie has evaluated subsequent events through November 10, 2016, the date the financial statements were issued and determined that no event has occurred that would materially affect the financial statements.

**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, 2016

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 1,125,097	\$ 1,125,097	\$ 1,072,081	\$ (53,016)
Miscellaneous	-	-	1,780	1,780
Total General Revenues	<u>1,125,097</u>	<u>1,125,097</u>	<u>1,073,861</u>	<u>(51,236)</u>
EXPENDITURES				
Public Safety - Fire Protection				
Current				
Personnel				
Salaries	657,016	657,016	630,234	26,782
Payroll Taxes	50,262	50,262	46,511	3,751
Retirement	87,646	87,646	83,255	4,391
Group Health Insurance	181,132	181,132	127,981	53,151
Workman's Compensation	40,468	40,468	40,468	-
Unemployment Taxes	1,306	1,306	-	1,306
Total Personnel	<u>1,017,830</u>	<u>1,017,830</u>	<u>928,449</u>	<u>89,381</u>
Materials and Services				
Advertising	100	100	-	100
Printing	200	200	-	200
Postage	200	200	212	(12)
Telephone and Fax	5,250	5,250	4,541	709
Electricity	7,500	7,500	6,555	945
Water and Sewer	1,500	1,500	1,479	21
Maintenance Contract	300	300	110	190
Repairs to Equipment	9,273	9,273	4,838	4,435
Equipment Maintenance	6,033	6,033	2,335	3,698
Repairs to Facilities	6,000	6,000	2,931	3,069
Equipment Rental	4,400	4,400	4,093	307
Professional/Legal Services	7,846	7,846	6,334	1,512
Medical/Annual Physicals	3,500	3,500	3,090	410
Per Diem	1,000	1,000	443	557
Transportation Costs/Barge	1,500	1,500	475	1,025
Pest Control	450	450	450	-
Dues and Subscriptions	2,258	2,258	1,682	576
Commercial Package/Equipment	13,398	13,398	11,933	1,465
Commercial Umbrella	1,252	1,252	1,252	-
Supplies	3,997	3,997	4,764	(767)
Uniforms	5,557	5,557	6,244	(687)
Small Tools and Appliances	4,519	4,519	342	4,177
Educational	900	900	-	900
Training, Registration and Lodging	1,502	1,502	1,153	349
Fire Prevention	700	700	700	-
Training for Officers/Instructors	400	400	99	301
Photocopy Expenses	100	100	-	100
Other Office Supplies	500	500	782	(282)
Fuels and Lubricants	7,627	7,627	4,009	3,618
Vehicle Repair Parts	7,505	7,505	3,221	4,284
Office Equipment	2,000	2,000	64	1,936
Total Materials and Services	<u>107,267</u>	<u>107,267</u>	<u>74,131</u>	<u>33,136</u>
Capital Outlay	-	-	5,639	(5,639)
Total Expenditures	<u>1,125,097</u>	<u>1,125,097</u>	<u>1,008,219</u>	<u>116,878</u>
Excess (Deficiency) of Revenues	-	-	65,642	65,642
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	2,781	2,781
Total Other Financing Sources (Uses)	-	-	2,781	2,781
Change in Fund Balances	-	-	68,423	68,423
Fund Balances, Beginning of year	140,533	140,533	140,533	-
Fund Balances, End of year	<u>\$ 140,533</u>	<u>\$ 140,533</u>	<u>\$ 208,956</u>	<u>\$ 68,423</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, 2016

	DEBT SERVICE FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Taxes	\$ 39,326	\$ 39,326	\$ 38,059	\$ (1,267)
Total Revenues	<u>39,326</u>	<u>39,326</u>	<u>38,059</u>	<u>(1,267)</u>
EXPENDITURES				
Public Safety - Fire Protection				
Capital Outlay	39,326	39,326	-	39,326
Total Capital Outlay	<u>39,326</u>	<u>39,326</u>	<u>-</u>	<u>39,326</u>
Total Expenditures	<u>39,326</u>	<u>39,326</u>	<u>-</u>	<u>39,326</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>38,059</u>	<u>38,059</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(2,781)	2,781
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(2,781)</u>	<u>2,781</u>
Change in Fund Balances	-	-	35,278	35,278
Fund Balances, Beginning of year	-	-	-	-
Fund Balances, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,278</u>	<u>\$ 35,278</u>

**DAUFUSKIE ISLAND FIRE DISTRICT
 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 STATE PENSION PLAN
 LAST TEN FISCAL YEARS**

	PORS									
	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Proportion of the Net Pension Liability	NA	NA	NA	NA	NA	NA	NA	NA	0.04703%	0.04709%
Proportionate Share of the Net Pension Liability	NA	NA	NA	NA	NA	NA	NA	NA	\$ 900,451	\$ 1,026,261
Covered-Employee Payroll	NA	NA	NA	NA	NA	NA	NA	NA	\$ 601,177	\$ 622,201
Proportionate Share of the Net Pension Liability	NA	NA	NA	NA	NA	NA	NA	NA	149.78%	164.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	NA	NA	NA	NA	NA	NA	NA	NA	67.50%	64.57%

NA - Not Available

**DAUFUSKIE ISLAND FIRE DISTRICT
SCHEDULE OF CONTRIBUTIONS
STATE PENSION PLAN
LAST TEN FISCAL YEARS**

	PORS									
	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Contractually Required Contribution	NA	NA	NA	NA	NA	NA	NA	NA	\$ 78,227	\$ 83,002
Contributions in Relation to the Contractually Required Contribution	NA	NA	NA	NA	NA	NA	NA	NA	78,227	83,002
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	NA	NA	NA	NA	NA	NA	NA	NA	601,177	622,201
Contributions as a Percentage of Covered-Employee Payroll	NA	NA	NA	NA	NA	NA	NA	NA	13.01%	13.34%

NA - Not Available

COMPLIANCE SECTION



CROWLEY WECHSLER & ASSOCIATES LLC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Daufuskie Island Fire District
Daufuskie Island, South Carolina

We have audited, in accordance with the 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, the financial statements of the governmental activities, and each major fund of Daufuskie Island Fire District (Daufuskie), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Daufuskie's basic financial statements, and have issued our report thereon dated November 10, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Daufuskie's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Daufuskie's internal control. Accordingly, we do not express an opinion on the effectiveness of Daufuskie's internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Daufuskie's financial statements are free from 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 statement 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowley Wechsler & Associates LLC

Crowley Wechsler & Associates LLC
Beaufort, South Carolina
November 10, 2016