

**DUNN'S CORNERS FIRE DISTRICT
WESTERLY, RHODE ISLAND**

**BASIC FINANCIAL STATEMENTS
MAY 31, 2010**

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

AND

REQUIRED SUPPLEMENTARY INFORMATION

**DUNN’S CORNERS FIRE DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2010**

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Operating Committee
Dunn's Corners Fire District
Westerly, Rhode Island

We have audited the accompanying financial statements of the governmental activities and each major fund of the Dunn's Corners Fire District as of and for the year ended May 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dunn's Corners 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Dunn's Corners Fire District as of May 31, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2010, on our consideration of the Dunn's Corners Fire District's 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 26 through 27 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.

Gothie, Hoyt & Filippetti, LLC

Groton, Connecticut
December 13, 2010

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CERTIFIED PUBLIC ACCOUNTANTS

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 Operating Committee
Dunn's Corners Fire District
Westerly, Rhode Island

We have audited the accompanying financial statements of the governmental activities and each major fund of the Dunn's Corners Fire District (the District) as of and for the year ended May 31, 2010, which collectively comprise the Dunn's Corners Fire District's basic financial statements and have issued our report thereon dated December 13, 2010. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the management letter dated December 13, 2010, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiency described in the management letter dated December 13, 2010 as MW-10-1, MW-10-2, and MW-10-3 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Dunn's Corners Fire District's 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 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 that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our report is described in the management letter dated December 13, 2010. We did not audit the District's response and, accordingly, we express no opinion on it. This report is intended solely for the information and use of the Dunn's Corners Fire District's Operating Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Gothie, Hoyt & Filippetti, LLC

Groton, Connecticut
December 13, 2010

**DUNN'S CORNERS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2010**

BASIC FINANCIAL STATEMENTS

Our discussion and analysis of the Dunn's Corners Fire District's financial performance provides an overview of the District's financial activities for the fiscal year ended May 31, 2010; as such, it should be read in conjunction with the District's audited financial statements. The audit consists of two series of financial statements: Government-Wide and Fund Financial Statements.

- 1) Government-Wide Financial Statements: These statements, which include the Statement of Net Assets and the Statement of Activities, provide information about the activity of the District as a whole. These statements also present a longer-term view of the District's finances by presenting all assets, liabilities, net assets, revenues, and expenses on the *accrual basis of accounting*, which is similar to the accounting methods used by many private-sector companies.

For purposes of the Government-Wide Financial Statements, the Dunn's Corners Fire District has the following activities:

- a) Governmental Activities – The District's primary service, fire protection, is reported here. This activity is financed primarily through an annual levy of property taxes.
- 2) Fund Financial Statements: For governmental activities, these statements present how the services provided by the District were financed in the short term as well as what remains for future spending. Additionally, these statements report the District's activities in greater detail by highlighting the District's most significant funds. The District's funds consist solely of *Governmental Funds*. These funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the *modified accrual basis of accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations; these statements help you to determine whether there are more or fewer financial resources that can be spent in the near future to finance District operations. We describe the relationship (or differences) between governmental *activities* (reported in the government-wide financial statements) and government *funds* in reconciliation at the bottom of the fund financial statements.

**DUNN'S CORNERS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED MAY 31, 2010**

CONDENSED GOVERNMENT-WIDE STATEMENTS

Presented below is a condensed version of the government-wide financial statements. Because the year ended May 31, 2010 is the first year for which the District has issued financial statements, a comparative analysis with the prior year is not presented here. A comparative analysis will be provided in future years.

Statement of Net Assets

	<u>Governmental Activities</u>
Current assets	\$ 577,289
Capital assets, net	2,546,482
Total assets	<u>\$ 3,123,771</u>
Current liabilities	\$ 37,731
Noncurrent liabilities	1,638,333
Total liabilities	<u>1,676,064</u>
Net assets	
Invested in capital assets	908,149
Unrestricted	539,558
Total net assets	<u>1,447,707</u>
Total liabilities and net assets	<u>\$ 3,123,771</u>

Current assets consist primarily of certificates of deposit and property tax receivables. Capital assets include real estate and fire apparatus owned by the District. The District's liabilities consist of the outstanding balances of three (3) notes payable along with the related accrued interest at year-end.

Significant capital outlays (>\$5,000) are being recorded as District capital assets and are being depreciated over their estimated useful lives. Capital assets presented here are shown net of their accumulated depreciation. Net assets have been separated into two categories on the District's financial statements: 1) Invested in capital assets and 2) Unrestricted net assets. Because capital assets are not very liquid (i.e. easily converted to cash) the District's equity in these assets has been separated and labeled as such. Unrestricted net assets, however, represents the liquid portion of the District's net assets that can be used to finance daily operations without constraints.

**DUNN'S CORNERS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED MAY 31, 2010**

CONDENSED GOVERNMENT-WIDE STATEMENTS (Continued)

Statement of Activities

	<u>Governmental Activities</u>
Program revenues	
Charges for services	\$ 149,070
General revenues	
Property taxes and related interest	633,937
Interest income	1,773
Miscellaneous revenues	870
Total revenues	<u>785,650</u>
Program expenses	
Public safety - fire protection	619,257
Recreation - community building	11,677
Total expenses	<u>630,934</u>
Change in net assets	154,716
Net assets, beginning of year	1,292,991
Net assets, end of year	<u><u>\$ 1,447,707</u></u>

Governmental Activities

The District's net assets increased by \$154,716 for the year ended May 31, 2010. This increase includes \$65,000 of fire protection fees received from another local fire district which was not expected in the District's budget for the 2009-2010 fiscal year. All such contracts with the District for fire protection are included with charges for services on the statement of activities.

**DUNN'S CORNERS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED MAY 31, 2010**

CONDENSED GOVERNMENT-WIDE STATEMENTS (Continued)

General Fund Budgetary Highlights

There was only one (1) amendment to the District's budget. This \$27,000 amendment, made at the July 2009 annual meeting, was to increase the budgeted transfer from the District's General Fund to its Building Fund (a Capital Project Fund).

Overall actual expenditures were under budget by \$11,414, with each individual budget line item varying only slightly in amount from the budget.

Overall actual revenues came in ahead of budget by \$30,537 primarily from the unanticipated receipt of fire protection fees of \$65,000 as previously mentioned.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At May 31, 2010, the District had over \$3 million invested in various capital assets as listed below:

	Governmental Activities
Land	\$ 454,696
Buildings and improvements	1,314,295
Vehicles	1,592,822
Total	\$ 3,361,813

During the fiscal year ended May 31, 2010, the District added \$86,939 of capital assets to its governmental activities. These additions included fire station improvements and the purchase of a vehicle for the use of the Fire Chief.

Noncurrent Liabilities

During the year ended May 31, 2010, the Dunn's Corners Fire District made its scheduled principal payments on its three (3) notes payable, leaving a total outstanding balance of \$1,638,333 at year-end.

More detailed information on the District's capital assets and noncurrent liabilities is presented in the notes to the financial statements.

NEXT YEAR'S BUDGET AND RATES

At its annual budget meeting in July 2010, the Dunn's Corners Fire District adopted a \$683,452 budget for 2010-2011 using a tax levy of \$484,026, fees of \$134,426, and \$65,000 of fund balance.

**DUNN'S CORNERS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
FOR THE YEAR ENDED MAY 31, 2010**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office at Dunn's Corners Fire District, 1 Langworthy Road, Westerly, RI 02891.

DUNN'S CORNERS FIRE DISTRICT
STATEMENT OF NET ASSETS
MAY 31, 2010

ASSETS

	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS	
Cash and cash equivalents	\$ 465,282
Receivables	104,000
Prepaid expenses	8,007
Total current assets	577,289
NONCURRENT ASSETS	
Capital assets, non-depreciable	454,696
Capital assets, net of accumulated depreciation	2,091,786
Total noncurrent assets	2,546,482
Total assets	\$ 3,123,771

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 15,493
Accrued expenses	22,238
Total current liabilities	37,731
NONCURRENT LIABILITIES	
Due within one year	120,667
Due in more than one year	1,517,666
Total noncurrent liabilities	1,638,333
NET ASSETS	
Invested in capital assets, net of related debt	908,149
Unrestricted	539,558
Total net assets	1,447,707
Total liabilities and net assets	\$ 3,123,771

The accompanying notes are an integral part of these financial statements

**DUNN'S CORNERS FIRE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2010**

Functions / Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Assets
				Governmental Activities
GOVERNMENTAL ACTIVITIES				
Public safety - fire protection	\$ (555,556)	\$ 145,075	\$ -	\$ (410,481)
Recreation - community building	(11,677)	3,995	-	(7,682)
Interest expense	(63,701)	-	-	(63,701)
	<u>\$ (630,934)</u>	<u>\$ 149,070</u>	<u>\$ -</u>	<u>(481,864)</u>
GENERAL REVENUES				
Property taxes and related interest				633,937
Interest income				1,773
Miscellaneous revenues				870
Total general revenues				<u>636,580</u>
Change in net assets				154,716
NET ASSETS, beginning of year				<u>1,292,991</u>
NET ASSETS, end of year				<u>\$ 1,447,707</u>

The accompanying notes are an integral part of these financial statements

**DUNN'S CORNERS FIRE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
MAY 31, 2010**

ASSETS

	GENERAL FUND	SPECIAL REVENUE		CAPITAL PROJECTS			TOTAL GOVERNMENTAL FUNDS
		PREVENTION FUND	FUND	TRUCK FUND	EQUIPMENT FUND	BUILDING FUND	
CURRENT ASSETS							
Cash and cash equivalents	\$ 465,282	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 465,282
Receivables, net	104,000	-	-	-	-	-	104,000
Due from other funds	-	6,081	-	48,323	69,881	34,082	158,367
Total current assets	\$ 569,282	\$ 6,081	\$ -	\$ 48,323	\$ 69,881	\$ 34,082	\$ 727,649

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES							
Accounts payable	\$ 15,493	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,493
Accrued expenses	2,639	-	-	-	-	-	2,639
Due to other funds	158,367	-	-	-	-	-	158,367
Deferred revenue	100,956	-	-	-	-	-	100,956
Total current liabilities	277,455	-	-	-	-	-	277,455
FUND BALANCES							
Reserved	65,000	-	-	-	-	-	65,000
Unreserved, undesignated	226,827	6,081	48,323	69,881	34,082	385,194	
Total fund balances	291,827	6,081	48,323	69,881	34,082	450,194	
Total liabilities and fund balances	\$ 569,282	\$ 6,081	\$ 48,323	\$ 69,881	\$ 34,082		

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds

Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds or recorded as period expenditures

Liabilities that are not due and payable in the current period are not reported in the funds

Net assets of governmental activities

	2,546,482
	108,963
	(1,657,932)
	\$ 1,447,707

The accompanying notes are an integral part of these financial statements

**DUNN'S CORNERS FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MAY 31, 2010**

	GENERAL FUND	SPECIAL REVENUE PREVENTION FUND	TRUCK FUND	CAPITAL PROJECTS EQUIPMENT FUND	BUILDING FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES						
General property taxes	\$ 578,067	\$ -	\$ -	\$ -	\$ -	\$ 578,067
Intergovernmental	129,200	-	-	-	-	129,200
Interest income	1,773	-	-	-	-	1,773
Other revenue	16,930	3,810	-	-	-	20,740
Total revenues	<u>725,970</u>	<u>3,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>729,780</u>
EXPENDITURES						
Current						
Public safety - fire protection	423,230	3,981	-	-	-	427,211
Recreation - community building	10,182	-	-	-	-	10,182
Debt service	186,922	-	-	-	-	186,922
Capital outlay	6,562	-	44,102	7,218	44,495	102,377
Total expenditures	<u>626,896</u>	<u>3,981</u>	<u>44,102</u>	<u>7,218</u>	<u>44,495</u>	<u>726,692</u>
Excess (deficiency) of revenues over expenditures	99,074	(171)	(44,102)	(7,218)	(44,495)	3,088
OTHER FINANCING SOURCES (USES)						
Transfers in (out)	(72,000)	-	25,000	10,000	37,000	-
Total other financing sources (uses)	<u>(72,000)</u>	<u>-</u>	<u>25,000</u>	<u>10,000</u>	<u>37,000</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)	27,074	(171)	(19,102)	2,782	(7,495)	3,088
FUND BALANCE, beginning of year	<u>264,753</u>	<u>6,252</u>	<u>67,425</u>	<u>67,099</u>	<u>41,577</u>	<u>447,106</u>
FUND BALANCE, end of year	<u>\$ 291,827</u>	<u>\$ 6,081</u>	<u>\$ 48,323</u>	<u>\$ 69,881</u>	<u>\$ 34,082</u>	<u>\$ 450,194</u>

The accompanying notes are an integral part of these financial statements

**DUNN'S CORNERS 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 MAY 31, 2010**

Net change in fund balances - total governmental funds	\$ 3,088
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation (\$122,409) exceeded capital additions (\$86,939) in the current period.	(35,470)
The District's governmental funds use the purchase method with regard to expenditures for insurance premiums. This is the increase in prepaid insurance premiums in the current period.	8,007
Governmental funds do not report the changes in long-term liabilities as they do not require the use of current financial resources.	123,221
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>55,870</u>
Change in net assets of governmental activities	<u><u>\$ 154,716</u></u>

The accompanying notes are an integral part of these financial statements

**DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2010**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dunn's Corners Fire District ("District") operates under the direction of an Operating Committee and provides fire protection services to the residents of designated areas of Westerly and Charlestown, Rhode Island. The District also provides fire protection services to other local fire districts under individual contracts.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

REPORTING ENTITY

The Dunn's Corners Fire District reporting entity consists of all significant funds, agencies, boards, commissions and authorities over which the District exercises oversight responsibility. Oversight responsibility was determined on the basis of financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters and scope of public service. Based on these criteria, the following entity was considered not to be a component unit as defined in Governmental Accounting Standards Board Statement ("GASB") 14 as amended by GASB 39, and has therefore been excluded from the District's reporting entity:

Dunn's Corners Fire Department

The District is not included in any other governmental "reporting entity" as defined by GASB because the Operating Committee members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as governmental.

In the government-wide Statement of Net Assets, the governmental activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS
(Continued)

and obligations. The District's net assets are reported in two parts – invested in capital assets, net of related debt and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of the District's primary function of fire protection. This function is also supported by general government revenues (property taxes, interest, and miscellaneous income). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating, and capital grants. Program revenues must be directly associated with the function. The net costs of fire protection are normally covered by general revenue (property taxes, interest, and miscellaneous income). The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures. The various funds are reported by generic classification within the financial statements.

The following Fund Types are used by the District:

1) Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

- a) General Fund. This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund.
- b) Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources that are legally restricted or board designated for specified purposes. The District currently maintains one special revenue fund, the Prevention Fund.

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (Continued)

- b) Special Revenue Funds. (Continued)
The Prevention Fund is used to account for inspection fee income which is used to pay for training activities and supplies. This fund is considered a major fund for the year ended May 31, 2010.
- c) Capital Project Funds. These funds are used to account for the acquisition or construction of capital assets. The District currently maintains three capital project funds: the Truck Fund, the Equipment Fund, and the Building Fund. These funds are considered major funds for the year ended May 31, 2010.

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

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1) Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2) Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collectible within the current period or within sixty (60) days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due. The District uses the purchase method with regard to its expenditures for insurance premiums.

**DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over estimated useful lives ranging from five (5) to forty (40) years.

GASB Statement No. 34 requires the District to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Based upon prior experience, management has not established an allowance for doubtful accounts for its delinquent property taxes in its General Fund.

BUDGETS

The District is required by state law to adopt an annual budget. The budget is presented on the modified accrual basis of accounting.

The budget is developed by the District's Operating Committee and then presented to eligible voters for approval at the Annual Meeting held each July. The District's tax levy is also approved by the eligible voters at the Annual Meeting.

There was one additional appropriation of \$27,000 made during the 2009-2010 fiscal year. Unexpended appropriations lapse at the end of the fiscal year.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH EQUIVALENTS

The District defines cash equivalents as liquid investments with an original maturity of three months or less. The District had cash equivalents of \$350,854 at May 31, 2010 which consisted of certificates of deposit.

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

FUND EQUITY AND NET ASSETS

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Unrestricted Net Assets – This category represents the net assets of the District, which are not restricted for any project or other purpose.

In the Fund Financial Statements, fund balances of governmental funds are classified in three separate categories as follows:

Reserved Fund Balance – Represents that portion of fund equity that is not available for appropriation or is legally segregated for specific future use.

Unreserved / Designated Fund Balance – Represents that portion of fund equity for which the District has made tentative plans that are subject to change.

Unreserved Fund Balance – Represents that portion of fund equity which is available for appropriation and expenditures in future periods.

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits and Investments - The District has no formal policy for deposits (cash and certificates of deposit treated as cash equivalents) and investments or a custodial credit risk policy and related credit risk policy for debt securities. However, as a practice, the District follows Rhode Island State Statutes which allows for the deposit of funds into savings accounts or certificates of deposit of commercial or savings banks or trust companies, or in obligations of the United States or its agencies, or in any other short term investment, as would be made by prudent persons of discretion and intelligence.

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate increases. Generally, the District does not invest in any long-term investment obligations.

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS
(Continued)

Concentration of Credit Risk – At May 31, 2010, the carrying amount of the District's deposits with financial institutions (including cash and certificates of deposit) was \$465,282 and the bank balance was \$517,838 of which \$250,000 was covered by federal depository insurance and \$267,838 was collateralized by debt securities held by the financial institution.

NOTE 3. PROPERTY TAXES

The District's property tax is levied and due between September 1st and September 30th, based on the assessed value listed as of December 31st of the previous year. Property taxes that have been levied and are due on or before year-end are recognized as revenue on the fund financial statements if they have been collected within sixty days after year-end. Property taxes receivable represents delinquent and uncollected taxes from the prior and current levies. Delinquent taxes accrue interest at 12% per annum. Property taxes receivable not collected within sixty days after year-end are reflected as deferred revenue. An allowance has not been established for uncollectible taxes based on historical collection experience and because Rhode Island State Statutes provide for an immediate three-year lien on property related to delinquent taxes.

NOTE 4. RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. There have been no significant reductions in insurance coverage and settlements have not exceeded insurance coverage for each of the past three fiscal years. All risk management activities are accounted for in the general fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims outstanding at May 31, 2010.

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 5. RECEIVABLES

At May 31, 2010, receivables consisted of the following:

	Government	
	Fund Financials	Wide
	General Fund	Governmental Activities
Property taxes	\$ 88,690	\$ 88,690
Interest and liens	15,310	15,310
Receivables, gross	104,000	104,000
Allowance for doubtful accounts	-	-
Receivables, net	<u>\$ 104,000</u>	<u>\$ 104,000</u>

Governmental funds report *deferred revenues* in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Deferred revenues in connection with resources received that have not yet been earned and therefore do not qualify for revenue recognition are reported in both the government-wide and fund financial statements.

At May 31, 2010, the District's deferred revenues consisted of the following:

	Government	
	Fund Financials	Wide
	General Fund	Governmental Activities
Unavailable	\$ 100,956	-
Unearned	-	-
	<u>\$ 100,956</u>	<u>-</u>

NOTE 6. INTERFUND BALANCES AND TRANSFERS

Interfund balances between governmental funds arise when receipts or disbursements are processed through one fund's cash accounts on behalf of another fund or from temporary advances of receipts. All balances are expected to be repaid within one year. As of May 31, 2010, the District's interfund balances were as follows:

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 6. INTERFUND BALANCES AND TRANSFERS (Continued)

	<u>Due From</u>	<u>Due To</u>
Major Funds		
General Fund	\$ 158,367	\$ -
Special Revenue Fund - Prevention Fund	-	6,081
Capital Project Fund - Truck Fund	-	48,323
Capital Project Fund - Equipment Fund	-	69,881
Capital Project Fund - Building Fund	-	34,082
	<u>\$ 158,367</u>	<u>\$ 158,367</u>

Transfers represent nonreciprocal transactions between funds. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

The District made the following transfers during the year ended May 31, 2010:

	<u>Transfers In</u>	<u>Transfers Out</u>
Fund Financial Statements		
Major Funds		
General Fund	\$ -	\$ 72,000
Capital Project Fund - Truck Fund	25,000	-
Capital Project Fund - Equipment Fund	10,000	-
Capital Project Fund - Building Fund	37,000	-
Total transfers - Fund Financial Statements	<u>\$ 72,000</u>	<u>\$ 72,000</u>

Transfers totaling \$72,000 were made to provide funding for current and future expenditures of the District's three capital projects funds.

NOTE 7. BUDGET MODIFICATIONS

At its 2009 Annual Meeting, eligible voters approved an additional appropriation of \$27,000 for anticipated expenditures related to the District's Building Fund.

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 8. CAPITAL ASSETS – GOVERNMENTAL ACTIVITIES

Changes in capital assets of governmental activities are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable assets				
Land	\$ 454,696	\$ -	\$ -	\$ 454,696
Total nondepreciable assets	454,696	-	-	454,696
Depreciable assets				
Buildings and improvements	1,270,800	43,495	-	1,314,295
Vehicles	1,549,378	43,444	-	1,592,822
Total depreciable assets	2,820,178	86,939	-	2,907,117
Total at historical cost	3,274,874	86,939	-	3,361,813
Less accumulated depreciation				
Buildings and improvements	193,188	32,676	-	225,864
Vehicles	499,734	89,733	-	589,467
Total accumulated depreciation	692,922	122,409	-	815,331
Governmental activities capital assets, net	\$ 2,581,952	\$ (35,470)	\$ -	\$ 2,546,482

Depreciation expense was charged to governmental functions as follows:

Public safety - fire protection	\$ 120,914
Recreation - community building	1,495
	<u>\$ 122,409</u>

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 9. NONCURRENT LIABILITIES – GOVERNMENTAL ACTIVITIES

Noncurrent liabilities of the governmental activities for the year ended May 31, 2010 consist of the following:

Description of Obligation	Beginning Balance	Borrowings	Repayments	Ending Balance
Note payable dated 11/13/08, payable fifteen (15) years at \$56,667 per year plus interest at a variable rate equal to 80% of the New York Prime Rate (2.60% per annum at May 31, 2010). Original indebtedness was \$850,000 for the purchase of a ladder truck.	\$ 850,000	\$ -	\$ 56,667	\$ 793,333
Note payable dated 12/07/04, payable twenty-five (25) years at \$35,000 per year plus interest at 5.25% per annum. Original indebtedness was \$875,000 for the renovation of fire station # 2.	735,000	-	35,000	700,000
Note payable dated 12/07/04, payable ten (10) years at \$29,000 per year plus quarterly interest payments equal to 80% of the lenders prime rate (2.60% per annum at May 31, 2010). Original indebtedness was \$290,000 for the purchase of fire engine #2.	174,000	-	29,000	145,000
Total notes payable	\$1,759,000	\$ -	\$ 120,667	\$ 1,638,333
				\$ 120,667
				1,517,666
				<u>\$ 1,638,333</u>

The District has pledged its full faith and credit as collateral for its indebtedness. The notes will be paid through the General Fund from taxes levied on taxable property in the District.

Interest paid by the District for the year ended May 31, 2010 was \$66,255. Total interest expense, including accrued interest of \$19,599, was \$63,701.

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 9. NONCURRENT LIABILITIES – GOVERNMENTAL ACTIVITIES
(Continued)

The schedule of debt maturity (principal and interest) is as follows:

	\$850,000	\$875,000	\$290,000	
	Note	Note	Note	Total
Principal Maturities				
<u>May 31,</u>				
2011	\$ 56,667	\$ 35,000	\$ 29,000	\$ 120,667
2012	56,667	35,000	29,000	120,667
2013	56,667	35,000	29,000	120,667
2014	56,667	35,000	29,000	120,667
2015	56,667	35,000	29,000	120,667
Thereafter	509,998	525,000	-	1,034,998
Total	\$ 793,333	\$ 700,000	\$ 145,000	\$ 1,638,333
Due within one year	\$ 56,667	\$ 35,000	\$ 29,000	\$ 120,667
Due in more than one year	736,666	665,000	116,000	1,517,666
	\$ 793,333	\$ 700,000	\$ 145,000	\$ 1,638,333
Interest Maturities				
<u>May 31,</u>				
2011	\$ 20,627	\$ 36,291	\$ 3,582	\$ 60,500
2012	19,153	34,453	2,828	56,434
2013	17,680	32,616	2,074	52,370
2014	16,207	30,778	1,319	48,304
2015	14,733	28,941	565	44,239
Thereafter	66,304	213,609	-	279,913
Total	\$ 154,704	\$ 376,688	\$ 10,368	\$ 541,760
Due within one year	\$ 20,627	\$ 36,291	\$ 3,582	\$ 60,500
Due in more than one year	134,077	340,397	6,786	481,260
Total	\$ 154,704	\$ 376,688	\$ 10,368	\$ 541,760

**DUNN'S CORNERS FIRE DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED MAY 31, 2010**

NOTE 10. RESERVED FUND BALANCE

At May 31, 2010, reserved fund balances on the fund financial statements consisted of the following:

	<u>General Fund</u>
Reserved	
To balance 2010-2011 budget	\$ 65,000

NOTE 11. EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended May 31, 2010, the following expenditures were in excess of their budgeted appropriations by the following amounts:

Operating	
Treasurer - stationary/postage	280
Tax collector - computer supplies	222
Salary	
Fire chief	7,243
Board of engineers	
Maintenance - engines/pumps	134
Supplies - truck fuel	31
Station #1 - fuel and electric	1,486
Station #2 - fuel and electric	231
General maintenance and supplies	71
Telephone/cable service	867

NOTE 12. PENSION PLAN

The District sponsors and administers a defined contribution profit sharing retirement plan under Section 401(k) of the Internal Revenue Code. At its sole discretion, the District may make matching and profit sharing contributions to eligible employees' accounts. As of May 31, 2010, the District's plan provided matching contributions of up to 7% of gross pay for employees who have worked 1,000 hours and are at least 21 years of age. Total District contributions to the plan for the year ended May 31, 2010 were \$8,014, which included profit sharing contributions of approximately 5%. As of May 31, 2010, there was one participant in the plan.

DUNN'S CORNERS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED MAY 31, 2010

NOTE 13. FIRE PROTECTION CONTRACTS

As of May 31, 2010, the District had contracted with three (3) other area fire districts to provide fire protection services for an annual fee. These contracts range from five (5) to seven (7) years in length and end on May 31, 2014, and May 31, 2016, respectively. The annual fee under these contracts is based on the previous year's fee as adjusted for any increases for the District's corresponding annual budget, subject to a maximum increase percentage of 6 to 7%. For the year ended May 31, 2010, fees earned and received under these contracts totaled \$129,200.

NOTE 14. PRONOUNCEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to May 31, 2010 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement 54, Fund Balance Reporting and Governmental Fund Types

This statement is effective for the year ending May 31, 2012. This statement establishes fund balance classifications that comprise a hierarchy which is based on the extent to which a government must adhere to constraints imposed on the use of its governmental fund resources. This statement also clarifies the existing governmental fund type definitions.

GASB Statement 57, Other Post Employment Benefits Measurements by Agent Employers and Agent Multiple-Employer Plans.

This statement is effective for the year ending May 31, 2013. The objective of the statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans.

REQUIRED SUPPLEMENTARY INFORMATION

**DUNN'S CORNERS FIRE DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2010**

	ORIGINAL BUDGET	BUDGET ADJUSTMENTS	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES					
Property taxes	\$ 617,233	\$ -	\$ 617,233	\$ 578,067	\$ (39,166)
FCD fees	64,200	-	64,200	129,200	65,000
Commercial inspection fees	14,000	-	14,000	12,065	(1,935)
Community building	-	-	-	3,995	3,995
Interest income	-	-	-	1,773	1,773
Other income	-	-	-	870	870
Total revenues	<u>695,433</u>	<u>-</u>	<u>695,433</u>	<u>725,970</u>	<u>30,537</u>
EXPENDITURES					
Operating					
Clerk					
Stationary/postage	100	-	100	-	100
Advertising	600	-	600	329	271
Treasurer					
Stationary/postage	400	-	400	680	(280)
Tax collector					
Stationary/postage	1,438	-	1,438	1,206	232
Tax bills - Westerly/Charlestown	1,795	-	1,795	1,304	491
Operating supplies	1,322	-	1,322	70	1,252
Computer supplies	1,000	-	1,000	1,222	(222)
Legal advertising	40	-	40	-	40
Operating committee					
Legal services	4,500	-	4,500	4,500	-
Audit services	12,000	-	12,000	4,000	8,000
Supplies	1,300	-	1,300	946	354
Payroll fees	2,100	-	2,100	1,269	831
DCFD community building					
Fuel	2,500	-	2,500	1,794	706
Repairs/minor upgrades	8,500	-	8,500	8,388	112
Total operating	<u>37,595</u>	<u>-</u>	<u>37,595</u>	<u>25,708</u>	<u>11,887</u>
Salary					
Clerk					
Clerk	800	-	800	800	-
Treasurer					
Treasurer	6,000	-	6,000	6,000	-
Tax collector/assessor					
Tax collector/assessor	6,750	-	6,750	6,750	-
Fire chief					
Fire chief	88,000	-	88,000	95,243	(7,243)
Fire marshals					
Fire marshals	7,000	-	7,000	7,000	-
District tax contribution					
District tax contribution	8,670	-	8,670	7,771	899
Total salary	<u>117,220</u>	<u>-</u>	<u>117,220</u>	<u>123,564</u>	<u>(6,344)</u>

See accountants' report

**DUNN'S CORNERS FIRE DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2010**

	ORIGINAL BUDGET	BUDGET ADJUSTMENTS	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Board of engineers					
Personal protective equipment	14,000	-	14,000	13,286	714
Radios and pagers	9,700	-	9,700	9,000	700
Replacement equipment	16,000	-	16,000	15,645	355
Maintenance - engines/pumps	33,700	-	33,700	33,834	(134)
Maintenance - radios/alarm system	5,700	-	5,700	5,700	-
Hydrant rental	10,053	-	10,053	9,443	610
Supplies - truck fuel	10,000	-	10,000	10,031	(31)
Station #1 - fuel and electric	17,625	-	17,625	19,111	(1,486)
Station #2 - fuel and electric	14,000	-	14,000	14,231	(231)
Insurance	42,500	-	42,500	41,116	1,384
General maintenance and supplies	22,000	-	22,000	22,071	(71)
Telephone/cable service	4,750	-	4,750	5,617	(867)
Dispatch service	12,000	-	12,000	11,960	40
Southern league	600	-	600	500	100
Dunn's Corners Fire Department	10,000	-	10,000	10,000	-
Engineers' expenses	5,000	-	5,000	4,781	219
Information services	10,000	-	10,000	9,945	55
Fire marshal inspection expense	6,500	-	6,500	6,500	-
Assistant chiefs' auto reimbursement	10,500	-	10,500	10,500	-
Copier	2,000	-	2,000	1,994	6
Firefighter reimbursement program	15,000	-	15,000	14,988	12
Training	10,000	-	10,000	9,337	663
Firefighter health plan	5,500	-	5,500	4,550	950
Total board of engineers	287,128	-	287,128	284,140	2,988
Capital					
Principal - station 2	35,000	-	35,000	35,000	-
Interest - station 2	38,200	-	38,200	37,618	582
Principal - engine 2	29,000	-	29,000	29,000	-
Interest - engine 2	5,500	-	5,500	4,643	857
Principal - tower 5	56,667	-	56,667	56,667	-
Interest - tower 5	25,000	-	25,000	23,994	1,006
Equipment fund	10,000	-	10,000	10,000	-
Truck fund	25,000	-	25,000	25,000	-
Buildings and grounds fund	10,000	27,000	37,000	37,000	-
Compressor replacement	7,000	-	7,000	6,562	438
Total capital	241,367	27,000	268,367	265,484	2,883
Total expenditures	683,310	27,000	710,310	698,896	11,414
Excess (deficiency) of revenues over expenditures	\$ 12,123		\$ (14,877)	\$ 27,074	\$ 41,951

See accountants' report