

**SOUTH FIRE DISTRICT OF THE
CITY OF MIDDLETOWN, CONNECTICUT**

**AUDITED FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
AND SUPPLEMENTAL SCHEDULES**

FOR THE YEAR ENDED JUNE 30, 2007

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SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

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ALBERT J. RUSILOWICZ

Certified Public Accountant, LLC

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
South Fire District of the City of Middletown, Connecticut:

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Fire District of the City of Middletown, Connecticut, as of and for the year ended June 30, 2007, which collectively comprise the South Fire District of the City of Middletown, Connecticut's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Fire District of the City of Middletown, Connecticut's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Fire District of the City of Middletown, Connecticut, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5 and pages 29 through 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Fire District of the City of Middletown, Connecticut's basic financial statements. The individual fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the South Fire District of the City of Middletown, Connecticut. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Albert J. Rusilowicz
Certified Public Accountant, LLC
Killingworth, Connecticut
November 28, 2007

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**South Fire District of the City of Middletown, Connecticut
Management's Discussion and Analysis
For the year ended June 30, 2007**

As management of the South Fire District of the City of Middletown, Connecticut (the "District") we offer readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here along with the District's basic financial statements.

Financial Highlights

On a government-wide basis, the assets of the District exceeded its liabilities resulting in total net assets of \$1,302,879. The total unrestricted net assets at June 30, 2007 were \$582,976.

On a government-wide basis, during the year, the District's net assets increased by \$71,388, from \$1,231,491 to \$1,302,879.

Governmental activities expenses were \$3,877,163.

At the end of the fiscal year the general fund had a balance of \$446,756.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The 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 as well as the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements include all assets and liabilities on the accrual basis of accounting. All of the District's revenues and expenses are recorded regardless of when received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference reported as net assets. Increases or decreases in net assets may serve as an indicator that the District's financial position is either improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the current fiscal year. Revenues and expenses are reported regardless of when received or paid and thus might be a future source or use of cash.

The statement of net assets and statement of activities can be found at Exhibit I and II.

**South Fire District of the City of Middletown, Connecticut
Management's Discussion and Analysis, Continued
For the year ended June 30, 2007**

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources. For the year ended June 30, 2007, the District had governmental and fiduciary type funds.

Governmental Funds

Governmental funds are used to account for basically the same functions reported as governmental activities in the government-wide financial statements. Governmental funds, unlike government-wide financial statements, focus on the short-term inflows and outflows of expendable resources, as well as on balances of expendable resources at the end of the year. These funds are reported on the modified accrual basis. The differences between governmental activities and governmental funds is reflected on the bottom of the fund financial statements.

The governmental fund financial statements are reflected at Exhibit III and IV.

Fiduciary Funds

The District is the trustee, or fiduciary, for its employees' pension plans. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The fiduciary fund financial statements are reflected at Exhibit V and VI.

Notes to the Financial Statements

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

Government-wide Financial Analysis

The analysis below reflects net assets and changes in net assets.

Net Assets	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	Governmental	Governmental
	Activities	Activities
Current and other assets	\$ 1,292,584	\$ 744,319
Capital assets	794,903	658,837
Total Assets	<u>\$ 2,087,487</u>	<u>\$ 1,403,156</u>
Current liabilities	\$ 115,967	\$ 35,920
Long-term liabilities	668,641	342,269
Total Liabilities	<u>784,608</u>	<u>378,189</u>
Net assets:		
Invested in capital assets, net of debt	719,903	658,837
Unrestricted-undesignated	582,976	366,130
Total Net Assets	<u>\$ 1,302,879</u>	<u>\$ 1,024,967</u>

**South Fire District of the City of Middletown, Connecticut
Management's Discussion and Analysis, Continued
For the year ended June 30, 2007**

Net assets of the District's governmental activities increased by \$71,388. Unrestricted net assets of \$582,976 may be used to meet the District's ongoing obligations.

Changes in Net Assets

	<u>Year Ended June 30, 2007</u> Governmental Activities	<u>Year Ended June 30, 2006</u> Governmental Activities
Revenues:		
Program Revenues:		
Operating grants and contributions	\$ -	\$ -
General Revenues:		
Property taxes	3,761,636	3,054,423
Grants and contributions not restricted to specific programs	86,926	74,149
Unrestricted investment earnings	95,818	39,750
Miscellaneous	4,171	1,538
Total revenues	<u>3,948,551</u>	<u>3,169,860</u>
Program Expenses:		
Fire and emergency services	<u>3,877,163</u>	<u>3,430,408</u>
Total program expenses	<u>3,877,163</u>	<u>3,430,408</u>
Increase(decrease) in net assets	<u>\$ 71,388</u>	<u>\$ (260,548)</u>

The District's total revenues were \$3,948,551. The total cost of all programs was \$3,877,163.

Governmental Activities

For governmental activities, approximately 95% of the revenues were derived from property taxation; approximately 3% coming from investment earnings and approximately 2% from grants and other sources. 100% of the District's expenditures related to fire and emergency services.

Fund Financial Analysis

Governmental Funds

At the end of the year the governmental funds reported a fund balance of \$657,552. This was an increase of \$56,817 from last years total of \$600,735. At June 30, 2007 all of the ending general fund balance was undesignated. The general fund is the chief operating fund of the District.

**South Fire District of the City of Middletown, Connecticut
Management's Discussion and Analysis, Continued
For the year ended June 30, 2007**

General Fund Budgetary Highlights

The final amended budget was \$3,832,147. Additional appropriations totaled \$75,000 during the year. During the current fiscal year, actual revenues were \$4,024,363 which exceeded budgetary estimates by \$192,216. Actual expenditures on a budgetary basis totaled \$3,954,682, which were less than actual revenues on a budgetary basis by \$69,681.

Capital Assets and Debt Administration

The District's investment in capital assets for its governmental activities as of June 30, 2007, amounts to \$794,903, net of accumulated depreciation. This investment in capital assets includes land, buildings, related improvements, rolling equipment, and machinery and equipment. This represents a net increase of \$136,066 during the year.

Capital Assets (net of depreciation)	<u>June 30, 2007</u> Governmental Activities	<u>June 30, 2006</u> Governmental Activities
Land	\$ 20,281	\$ 20,281
Building & Improvements	130,726	141,557
Rolling equipment	537,046	399,600
Equipment & Furnishings	106,850	97,399
	<u>\$ 794,903</u>	<u>\$ 658,837</u>

Long-term Liabilities

At June 30, 2007 the District had long-term liabilities of \$668,641 which consisted of accrued compensated absences and a capital lease obligation payable. Long term liabilities increased by \$326,372 during the year.

Outstanding Debt	<u>June 30, 2007</u> Governmental Activities	<u>June 30, 2006</u> Governmental Activities
Compensated absences	\$377,831	\$342,269
Capital lease obligation	290,810	-
Total Outstanding Debt	<u>\$668,641</u>	<u>\$342,269</u>

Economic Factors and Next Year's Budgets and Rates

The District was able to successfully pass its' 2007/2008. The District has not been affected by changes in the local economy. The District does not expect to cut employment levels and expects state grants to remain consistent.

Requests for Information

The financial report is designed to provide an overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief of the South Fire District of the City of Middletown, Connecticut, 445 Randolph Road, Middletown, Connecticut 06457.

FINANCIAL STATEMENTS

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT

STATEMENT OF NET ASSETS

June 30, 2007

ASSETS:	Governmental Activities	Total
Cash and cash equivalents	\$ 715,288	715,288
Capital lease proceeds held in escrow	215,810	215,810
Net pension asset	200,726	200,726
Receivables, net	151,427	151,427
Other assets	9,333	9,333
Capital assets, net	794,903	794,903
Total Assets	<u>2,087,487</u>	<u>2,087,487</u>
 LIABILITIES:		
Accounts payable and accrued expenses	115,967	115,967
Long-term liabilities:		
Due within one year-compensated absences	377,831	377,831
Due within one year-capital lease obligation	53,709	53,709
Due in more than one year-capital lease obligation	237,101	237,101
Total Liabilities	<u>784,608</u>	<u>784,608</u>
 NET ASSETS:		
Invested in capital assets, net of related debt	719,903	719,903
Unrestricted	582,976	582,976
Total Net Assets	<u>\$ 1,302,879</u>	<u>1,302,879</u>

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

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
Fire and emergency services	\$ 3,877,163	-	-	(3,877,163)
Total governmental activities	<u>3,877,163</u>	<u>-</u>	<u>-</u>	<u>(3,877,163)</u>
Total government	\$ <u>3,877,163</u>	<u>-</u>	<u>-</u>	<u>(3,877,163)</u>
General revenues:				
Property taxes				3,761,636
Grants and contributions not restricted to specific programs				86,926
Unrestricted investment earnings				95,818
Miscellaneous				4,171
Total general revenues and transfers				<u>3,948,551</u>
Change in net assets				71,388
Net assets-beginning-restated				1,231,491
Net assets-ending				<u>\$ 1,302,879</u>

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

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT

Exhibit III

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	<u>General Fund</u>	<u>Reserve Fund For Capital and Nonrecurring Expenditures</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and equivalents	\$ 496,345	218,943	715,288
Property taxes receivable	115,028	-	115,028
Other assets	9,333	-	9,333
Due from other funds	8,147	-	8,147
Total Assets	\$ 628,853	218,943	847,796
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued expenses	\$ 105,359	-	105,359
Deferred property tax revenue	76,266	-	76,266
Other liabilities	472	-	472
Due to other funds	-	8,147	8,147
Total Liabilities	182,097	8,147	190,244
Fund Balances:			
Unreserved, reported in:			
General Fund	446,756	-	446,756
Designated for subsequent years budget	-	-	-
Designated for continued appropriations	-	210,796	210,796
Total Fund Balances	446,756	210,796	657,552
Total Liabilities and Fund Balances	\$ 628,853	218,943	

Amounts reported for governmental activities in the statement of net assets (Exhibit I) are different because:

Escrow funds held by the lessor under the capital lease are not recorded in the funds	215,810
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	794,903
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	76,266
Net pension assets are not recorded in the funds	200,726
Accrued interest on property taxes receivable is not recorded in the funds	36,399
Accrued interest payable on capital lease obligations is not recorded in the funds	(10,136)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds	(668,641)
Net assets of governmental activities (Exhibit I)	\$ 1,302,879

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

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT

Exhibit IV

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>Reserve Fund For Capital and Nonrecurring Expenditures</u>	<u>Total Governmental Funds</u>
Revenues:			
Tax collections	\$ 3,777,591	-	3,777,591
Intergovernmental:			
State grants	86,926	-	86,926
Investment income	80,675	15,143	95,818
Other	4,171	-	4,171
Total Revenues	<u>3,949,363</u>	<u>15,143</u>	<u>3,964,506</u>
Expenditures:			
Fire and emergency services	3,805,594	177,095	3,982,689
Total Expenditures	<u>3,805,594</u>	<u>177,095</u>	<u>3,982,689</u>
Excess of Revenues Over (Under) Expenditures	143,769	(161,952)	(18,183)
Other Financing Sources (Uses):			
Proceeds of Capital Lease	75,000	-	75,000
Operating transfers in	-	149,088	149,088
Operating transfers out	(149,088)	-	(149,088)
Total Other Financing Sources (Uses):	<u>(74,088)</u>	<u>149,088</u>	<u>75,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	69,681	(12,864)	56,817
Fund Balance (Deficit) June 30, 2006	377,075	223,660	
Fund Balance (Deficit) June 30, 2007	<u>\$ 446,756</u>	<u>210,796</u>	

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current year.	136,066
Revenues in the statement of activities that do not provide current financial resources are not reported in the funds	(15,955)
Capital lease obligation proceeds provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the statement of net assets. This is the amount of capital lease obligation proceeds received by the District.	(75,000)
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	(30,540)
Change in net assets (Exhibit II)	<u>\$ 71,388</u>

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

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 June 30, 2007

	Pension Trust Fund		
	Defined Benefit Plan	Defined Contribution Plan	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 261,557	-	261,557
Investments	-	1,611,842	1,611,842
Total Assets	\$ 261,557	1,611,842	1,873,399
 Net assets held in trust for pension benefits	 \$ 261,557	 1,611,842	 1,873,399

See accompanying notes to financial statements.

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
For the Year Ended June 30, 2007**

	<u>Defined Benefit Pension Plan</u>	<u>Defined Contribution Pension Plan</u>	Total
ADDITIONS:			
Contributions:			
Employer	\$ 260,000	115,302	375,302
Investment earnings	5,053	255,210	260,263
Total Additions	<u>265,053</u>	<u>370,512</u>	<u>635,565</u>
DEDUCTIONS:			
Benefits paid	18,611	7,645	26,256
Fees and other expenses	-	451	451
Total Deductions	<u>18,611</u>	<u>8,096</u>	<u>26,707</u>
Net Increase	246,442	362,416	608,858
Net assets held in trust for pension benefits:			
Beginning of year	15,115	1,249,426	1,264,541
End of year	<u>\$ 261,557</u>	<u>1,611,842</u>	<u>1,873,399</u>

See accompanying notes to financial statements.

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 1 - Summary of Significant Accounting Policies

The financial statements of the South Fire District of the City of Middletown, Connecticut (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the District are described below:

A. Reporting Entity

The South Fire District of the City of Middletown, Connecticut was incorporated as a special taxing district by special act of the General Assembly of the State of Connecticut in 1957. The District operates under a Board of Commissioners form of Government. The District has as its purpose the protection of life and property of the electors from loss or destruction by fire and other perils as are consistent with the aims and goals of a fire department.

The District operates under the provisions of its charter, by-laws and the General Statutes of the State of Connecticut. The legislative powers of the District are vested in the Electors. The executive body is made up of a five member Board of Commissioners.

B. Government-Wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

The statement of net assets presents the Districts non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in Capital Assets Net of Related Debt – This category consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those capital assets.

Restricted Net Assets – This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2007, the District had no restricted net assets.

Unrestricted Net Assets – This category consists of net assets which do not meet the definition of the two preceding categories.

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

Note 1 - Summary of Significant Accounting Policies, Continued

B. Government-Wide and Fund Financial Statements, Continued

Government-wide Financial Statements, Continued

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or purpose. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The various funds included in the financial statements are described below:

Governmental Funds

Governmental Funds are those through which most of the governmental functions are financed.

General Fund - The General Fund is the primary operating fund of the District. This fund is used to account for all financial resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal grants, and interest income.

Special Revenue Funds - Special Revenue Funds are used to account for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

Pension Trust Funds - The Pension Trust Fund is used to account for the Districts defined benefit and defined contribution pension plans.

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

Note 1 - Summary of Significant Accounting Policies, Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District 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.

Property taxes and interest 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 cash is received.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The Reserve Fund for Capital and Nonrecurring Expenditures is a Special Revenue Fund which is used to account for financial resources to be used for the acquisition of capital and/or nonrecurring items.

Additionally, the District reports the following fund types:

The Pension Trust Fund which accounts for the activities of the District's defined benefit and defined contribution pension plans, which accumulate resources for pension benefit payments to qualified District employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

Note 1 - Summary of Significant Accounting Policies, Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, Continued

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

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

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.

D. Deposits and Investments

The District'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.

State statutes authorize the District to invest in obligations of the United States Treasury, commercial paper, corporate bonds, repurchase agreements, and certain other investments as more fully described in Note 4.

Investments of the District are reported at fair value.

E. Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts being owed between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/due from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the non-current portion of interfund loans.) All other outstanding balances between funds are reported as "due to/due from other funds." Interfund receivables and payables within governmental activities are eliminated in the Statement of Net Assets.

All trade and property taxes receivable are shown net of an allowance for uncollectibles. Property taxes are assessed as of October 1. Assessed values are established by the City of Middletown's Assessor's office at 70% of appraised value. Taxes are billed in the following July and are due in one installment. Taxes become overdue one month after the installment due date. Interest at the rate of 1.5% per month accrues on all overdue tax balances. Liens are effective on the assessment date and are continued by filing in May following the due date.

Section 12-165 of the General Statutes of the State of Connecticut requires each municipality to write-off, on an annual basis, the property taxes which are deemed uncollectible.

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

Note 1 - Summary of Significant Accounting Policies, Continued

F. Inventories and Prepaid Expenses

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. At June 30, 2007, the District had no inventory.

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. At June 30, 2007 the District had no prepaid items.

G. Capital Assets

Capital assets, which include land and related improvements, buildings and related improvements, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements.

Fixed assets used in governmental fund operations are accounted for as capital outlays, or departmental expenditures in the fund financial statements upon acquisition.

Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings and related improvements, land improvements, equipment and vehicles, and infrastructure assets (e.g., driveways, sidewalks, and similar items) are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-40
Land improvements	40
Equipment and vehicles	7-18

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

Note 1 - Summary of Significant Accounting Policies, Continued

H. Compensated Absences

Under the terms of the District's contracts, District employees are granted vacation and sick leave in varying amounts. Sick leave may be accumulated by employees until retirement, termination in good standing or death, at which time they are paid 66.67% of a days pay for each day of unused accumulated sick leave up to a maximum of 100 days. At June 30, 2007, the liability for accumulated unpaid sick pay approximated \$366,952.

Accumulated sick leave is recognized as a liability of the District in the government-wide financial statements.

I. Long-Term Obligations

All long-term debt to be repaid from governmental resources is reported as a liability in the government-wide financial statements. The long-term debt consists of accrued compensated absences and a capital lease obligation payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. Any debt proceeds are reported as other financing sources and the payment of principal and interest are reported as expenditures. At June 30, 2007, the District had no bonded debt.

J. Fund Equity

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

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets.

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

2. Reconciliation of Government-Wide and Fund Financial Statements, Continued

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets, Continued

One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore not reported in the funds." The details of this (\$668,641) are as follows:

Compensated absences	\$	377,831
Capital lease obligation payable		290,810
 Net adjustment to reduce fund balance - total government funds to arrive at net assets-governmental activities		 <u>\$ 668,641</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$136,066 are as follows:

Depreciation expense	\$	(94,223)
Capital outlays		230,289
 Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets- governmental activities		 <u>\$ 136,066</u>

Another element of that reconciliation states that "Revenues in the statement of activities that do not provide current financial resources are not reported in the funds." The details of this (15,955) difference are as follows:

Change in accrued interest receivable	\$	898
Change in deferred property tax revenue		(16,853)
 Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets- governmental activities		 <u>\$ (15,955)</u>

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

2. Reconciliation of Government-Wide and Fund Financial Statements, Continued

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities, Continued

Another element of that reconciliation states that "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." The details of this (30,540) difference are as follows:

Change in liability for compensated absences	\$ (35,562)
Change in net pension asset	15,158
Change in accrued interest payable	(10,136)
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets-governmental activities	\$ (30,540)

3. Stewardship, Compliance and Accountability

The District establishes an annual budget in accordance with provisions of its by-laws. Notice of the annual budget meeting is placed in a newspaper with a circulation within the limits of the District. Said notice is placed not more than 15 days, and not less than 10 days, before the date of the budget meeting. The budget meeting of the District is held on the last Tuesday of April each year. The meeting has as its order of business, adoption of a fiscal budget for the District for the following fiscal year. The operating budget includes proposed expenditures and the means of financing them.

Formal budgetary integration is employed as a management control device during the year for the General Fund. There were no additional appropriations approved during the year.

All unencumbered appropriations lapse at year-end, except those for the Reserve Fund for Capital and Nonrecurring Expenditures.

4. Cash, Cash Equivalents and Investments

A. Cash and Cash Equivalents

The deposit of public funds is controlled by Connecticut General Statutes. Cash equivalents are defined as those liquid investments having original maturities of three months or less. The following is a summary of cash and cash equivalents at June 30, 2007:

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

4. Cash, Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

Deposits:	
Demand accounts	\$ 81,634
Money market investment account	15,323
Total deposits	96,957
Other cash equivalents :	
State of Connecticut, Short-term Investment Fund	879,888
Total cash and equivalents	\$ 976,845
Governmental Funds	\$ 715,288
Pension Trust Fund	261,557
	\$ 976,845

Deposits

At June 30, 2007, the carrying amount of the District's deposits with financial institutions was \$96,957 and the bank balance was \$126,156.

Custodial credit risk is the risk that, in the event of a bank failure, the District would not be able to recover its deposits or would not be able to recover collateral securities that are in possession of an outside party. The District does not have a policy for custodial risk. As of the June 30, 2007 all of the bank balance was covered by Federal Depository Insurance. All of the District's deposits are in qualified public institutions as defined by state statute.

Cash equivalents

Cash equivalents are defined as those highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2007, the District's cash equivalents represented amounts held in the State Short-Term Investment Fund (STIF). The STIF is an investment pool managed by the Treasurer of the State of Connecticut. The pool is rated AAAM by Standard & Poor.

B. Investments

As of June 30, 2007, the District's investments consisted of the following:

	<u>Carrying Amount</u>	<u>Market Value</u>
Pooled open-end mutual fund accounts		
Pension Trust Fund:		
Defined Contribution Plan	\$ 1,611,842	1,611,842
	\$ 1,611,842	1,611,842

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

4. Cash, Cash Equivalents and Investments, Continued

B. Investments, Continued

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 increasing interest rates.

Credit Risk

The District has no investment policy that would further limit its investment choices beyond those limited by Connecticut state statutes. The provisions of the statutes regarding the investment of municipal pension funds does not specify permitted investments. Therefore, the investment of such funds is generally controlled by laws applicable to fiduciaries and the provisions of the applicable plan.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. The District does not have a policy for custodial credit risk. The District's investments consist of investments in external investment pools and money market funds which are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Concentrations of Credit Risk

The District's investments consist of investments in external investment pools and money market funds which are not exposed to concentrations of credit risk because they are not evidenced by securities that exist in physical or book form.

5. Receivables and Deferred Revenue

Receivables as of year-end are as follows:

	<u>General Fund</u>
Receivables:	
Taxes	\$ 115,028
Interest *	36,399
Total gross receivables	151,427
Less: allowance for uncollectibles	-
Net total receivables	\$ 151,427

* Accrued interest on property taxes receivable in the amount of \$36,399 is not included in the Fund Financial Statements.

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

5. Receivables and Deferred Revenue, Continued

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the component of deferred revenue reported in governmental funds is as follows:

Delinquent property taxes receivable \$ 76,266

6. Capital Assets

Capital asset activity for the year ended June 30, 2007 is as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 20,281	-	-	20,281
Capital assets, being depreciated				
Buildings and improvements	649,756	9,039	-	658,795
Rolling equipment	894,595	194,703	-	1,089,298
Equipment	155,036	26,547	-	181,583
Total assets being depreciated	<u>1,699,387</u>	<u>230,289</u>	<u>-</u>	<u>1,929,676</u>
Less: accumulated depreciation for:				
Buildings and improvements	508,199	19,870	-	528,069
Rolling equipment	494,994	57,258	-	552,252
Equipment	57,638	17,095	-	74,733
Total accumulated depreciation	<u>1,060,831</u>	<u>94,223</u>	<u>-</u>	<u>1,155,054</u>
Total capital assets, being depreciated, net	<u>638,556</u>	<u>136,066</u>	<u>-</u>	<u>774,622</u>
Governmental activities capital assets, net	<u>658,837</u>	<u>136,066</u>	<u>-</u>	<u>794,903</u>
Total Government-Wide Capital Assets, Net	<u>\$ 658,837</u>	<u>136,066</u>	<u>-</u>	<u>794,903</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Fire and emergency services	\$ 94,223
Total depreciation expense-governmental activities	<u>\$ 94,223</u>

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

7. Interfund Accounts

At June 30, 2007, amounts due from and to other funds were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 8,147	-
Major Governmental Fund:		
Reserve Fund for Capital and Nonrecurring Expenditures	-	8,147
	<u>\$ 8,147</u>	<u>8,147</u>

For the year ended June 30, 2007, interfund transfers were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	149,088
Major Governmental Fund:		
Reserve Fund for Capital and Nonrecurring Expenditures	149,088	-
	<u>\$ 149,088</u>	<u>149,088</u>

All transfers represent routine recurring transaction to move resources from one fund to another.

8. Long-term Liabilities

Changes in Long-term Debt

Long-term liabilities of the District consist of accumulated unpaid sick leave benefits and an occupational settlement. Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Reductions/ Maturities</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 342,269	35,562	-	377,831	377,831
Capital lease obligation payable	-	290,810	-	290,810	53,709
Total Governmental Activities long-term liabilities	<u>\$ 342,269</u>	<u>326,372</u>	<u>-</u>	<u>668,641</u>	<u>431,540</u>

9. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; workers compensation and natural disasters for which the District carries commercial insurance. During the year ended June 30, 2007, deductibles paid by the District were insignificant. Settled claims, for all types of commercial coverage, have exceeded commercial insurance coverage by \$149,058 during the past three fiscal years.

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

9. Risk Management, Continued

The District is currently a member in Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established for the purpose of administering an interlocal risk management program pursuant to the provisions of Connecticut General Statutes for workers compensation. The District pays an annual premium for its coverage. CIRMA is to be self-sustaining through members' premiums but reinsures in excess of \$1,000,000 for each insured occurrence. Members may be subject to supplemental assessment in the event of deficiencies; however, potential assessments are limited pursuant to the by-laws.

10. Defined Benefit Pension Plan

Plan Description

The District maintains a single-employer defined benefit pension plan. The noncontributory defined benefit pension plan was amended effective July 1, 1994 to freeze benefits for all of the 11 remaining active participants. All other eligible District employees are covered under the defined contribution plan as described in Note 12.

The plan is considered to be part of the District's financial reporting entity and is included as a pension trust fund of the District.

Summary of Significant Accounting Policies

The plan's financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at market value.

Plan Membership

Membership of the plan consisted of the following at July 1, 2005, the date of the most recent actuarial valuation:

Active plan members	<u>11</u>
---------------------	-----------

Benefit provisions

A participant is eligible for normal retirement upon reaching the age of 60. The monthly retirement benefit is equal to the following:

The monthly retirement benefit at normal retirement date is equal to (A) plus (B), where:

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

10. Defined Benefit Pension Plan, Continued

Benefit provisions, Continued

(A) Equals 29% of the participant's average monthly compensation. Average monthly compensation is defined as the participants W-2 salary or wage, including bonuses, commissions, overtime and deferred compensation averaged over the employee's 3 years out of the last 10 years of employment immediately preceding normal retirement that produce the highest average.

(B) Equals 16% of that portion of the participant's average monthly earnings that are in excess of his/her covered compensation level.

The monthly retirement benefit is reduced proportionately for each year of service less than 17 completed at normal retirement age. Effective July 1, 1994, benefit accruals ceased for all remaining 11 members.

If an employee terminates his or her employment with the District prior to retirement, and has completed at least 4 years of service, he or she is entitled to a percentage of the accrued benefit determined based upon the following vesting schedule:

<u>Length of Service</u>	<u>Percentage</u>
Less than 4 years	0
After 4 years	40
After 5 years	45
After 6 years	50
After 7 years	60
After 8 years	70
After 9 years	80
After 10 years	90
After 11 years	100

The benefit provisions and contributions under the plan are established by the Board of Commissioners and may be amended only by the Board of Commissioners.

Funding Policy

The District's funding policy is to provide for annual employer contributions, as determined actuarially, which are designed to accumulated sufficient assets to pay benefits (lump-sum or purchased annuity) when due. The required contributions are determined using the individual aggregate cost method.

During the year ended June 30, 2007 contributions totaling \$260,000, were made which exceeded the contribution requirements determined by an actuarial valuation of the District's retirement system as of July 1, 2005.

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

10. Defined Benefit Pension Plan, Continued

Concentrations

At June 30, 2007, plan assets were invested in the State of Connecticut Short-Term Investment Fund and are considered cash equivalents.

As of July 1, 2005, the date of the most recent actuarial valuation, there were 11 active participants covered by the plan. The District's contribution for the year ended June 30, 2006 was \$260,000. Covered payroll for active participants was \$0. Historically, covered payroll was reported only for members without frozen benefits.

Three-year trend information

Fiscal Year Ending	Annual Pension Cost (APC)	Employer Contribution	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2005	\$ 60,917	\$ 127,000	208%	\$ (77,315)
6/30/2006	\$ 53,747	\$ 162,000	301%	\$ (185,568)
6/30/2007	\$ 244,842	\$ 260,000	106%	\$ (200,726)

Annual Pension Cost and Net Pension Obligation

The District's annual pension cost and net pension obligation as of July 1, 2005, the date of the most recent valuation, were as follows:

Annual required contribution	\$ 221,446
Interest on the net pension obligation	(12,990)
Adjustment to the annual required contribution	36,386
Annual pension cost	<u>244,842</u>
Contributions made	<u>260,000</u>
Increase (decrease) in the net pension obligation	(15,158)
Net pension obligation (asset), beginning of year	<u>(185,568)</u>
Net pension obligation (asset), end of year	<u><u>\$ (200,726)</u></u>

The annual required contribution for the current year was determined as part of the July 1, 2005 actuarial valuation using the individual aggregate method. The actuarial assumptions included (a) an investment return of between 3% and 5% depending on pre-retirement or post-retirement status and age and (b) no project salary increases as all benefits have been frozen. The actuarial assumptions also include retirement at the early retirement date. The actuarial value of the assets as of June 30, 2007 included only cash equivalents held in the State of Connecticut Short-Term Investment Fund.

(Continued)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

10. Defined Benefit Pension Plan, Continued

Funding Method Change

Effective July 1, 2005, the funding method has been changed from the entry age normal method to the individual aggregate method. Under the individual aggregate method, contributions to the plan are determined for each participant sufficient to fully fund his or her benefits over the number of years from the valuation date to age 55.

11. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the South Fire District. The plan, available to all eligible District employees, permits the employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until termination, retirement, death or an unforeseeable emergency.

12. Money Purchase Plan

Effective July 1, 1994, the District established the "South Fire District Money Purchase Plan" a defined contribution plan which is administered by the South Fire District and which covers all employee classifications except those who continued coverage under the District's defined benefit plan and volunteer firemen. Employees are entitled to receive a Money Purchase Contribution for a given plan year if they have completed at least 1,000 hours of service during the plan year.

Partial vesting occurs upon completion of 4 years of service with employees becoming fully vested after the completion of 11 years of service or upon reaching normal retirement age of 55 years. The Plan is funded entirely by District contributions and provides for monthly deposits to the Plan based upon eligible employee compensation. For the fiscal year ended June 30, 2007, contributions to the money purchase plan were equal to 9% of eligible employee compensation. Such contribution levels are established through negotiation.

The plan is considered to be part of the District's financial reporting entity and is included as a pension trust fund of the District.

For the year ended June 30, 2007, employer contributions to the plan totaled \$115,302.

13. Post-retirement Health Care Benefits

In addition to the pension benefits described in Notes 10 and 12, the District provides post-retirement health care benefits, in accordance with its collective bargaining agreement with IAFF Local 3918, to all eligible employees, and in some cases their spouses, who retire from the District. Currently, there are 7 individuals receiving such benefits. The bargaining agreement provides that the District will pay for health and dental insurance for the benefit of the retired employee and enrolled dependents of the retiree, subject to a co-pay, until such time as the retired employee is, or would have been, eligible for Medicare coverage. The expenditure for post-retirement health care benefits is recognized monthly as payments are made to the respective insurance carriers. During the year ended June 30, 2007, an expenditure of \$77,362 was recognized for such post-retirement health care benefits.

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007**

14. Restatement of Governmental Activities Net Assets

The District has restated beginning governmental activities net assets to reflect net pension assets for the defined benefit pension plan and to correct previously reported accrued interest receivable as follows:

Governmental activities-net assets as previously reported	\$ 1,024,967
Adjustment to correct accrued interest receivable as previously reported	20,956
Adjustment to properly reflect the Districts net pension assets	185,568
As restated	<u><u>\$ 1,231,491</u></u>

15. Commitments and Capital Lease Obligation

In May, 2006, the District entered into an agreement to purchase a fire truck for a total price of \$380,810. The truck was/is to be financed with a \$90,000 down payment which was made in fiscal year 2006/2007 and a capital lease for the balance of \$290,810. Delivery is expected in fiscal 2007/2008. The capital lease agreement was also signed by the District in May, 2006 and has scheduled payments beginning in August, 2007 and continuing through August, 2011.

At June 30, 2007, future minimum lease payments under the terms of the capital lease are as follows:

<u>Fiscal Year Ending</u>	
June 30, 2008	\$ 65,293
June 30, 2009	65,293
June 30, 2010	65,293
June 30, 2011	65,293
June 30, 2012	65,293
	<u>326,465</u>
Less: amounts represents interest	(35,655)
	<u><u>\$ 290,810</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
Schedule of General Fund Revenues-Budgetary Basis
Budget and Actual
For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues:				
Tax Collector:				
General property taxes	\$ 3,633,595	3,633,595	3,725,654	92,059
Interest and lien fees	25,000	25,000	51,937	26,937
Total Tax Collector	<u>3,658,595</u>	<u>3,658,595</u>	<u>3,777,591</u>	<u>118,996</u>
State of Connecticut:				
Manufacturing inventory	72,147	72,147	79,586	7,439
Other	135	135	137	2
Private colleges and hospitals	6,900	6,900	7,203	303
Total State of Connecticut	<u>79,182</u>	<u>79,182</u>	<u>86,926</u>	<u>7,744</u>
Income From Investment of Funds	19,370	19,370	80,675	61,305
Other	-	-	4,171	4,171
Capital Lease Proceeds-Fire Turck	-	75,000	75,000	-
Fund Balance and Surplus	-	-	-	-
Total Revenues Before Transfers	<u>3,757,147</u>	<u>3,832,147</u>	<u>4,024,363</u>	<u>192,216</u>
Transfer in From the Reserve Fund	-	-	-	-
Total Revenues and Transfers	<u>3,757,147</u>	<u>3,832,147</u>	<u>4,024,363</u>	<u>192,216</u>

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
Schedule of General Fund Expenditures-Budgetary Basis
Budget and Actual
For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Utilities:				
Electricity	\$ 12,000	12,000	18,427	(6,427)
Water and sewer	950	950	1,399	(449)
Heating	16,000	16,000	21,017	(5,017)
Telephone	4,500	4,500	4,400	100
Total Utilities	33,450	33,450	45,243	(11,793)
Apparatus/Vehicles:				
Fuel	15,000	15,000	22,721	(7,721)
Tires and batteries	4,000	4,000	5,665	(1,665)
Repairs	35,000	35,000	44,348	(9,348)
Annual inspection (OSHA)	1,200	1,200	1,073	127
Vehicle supplies	1,600	1,600	2,358	(758)
Total Apparatus/Vehicles	56,800	56,800	76,165	(19,365)
Insurance:				
Workers compensation	226,000	226,000	230,461	(4,461)
Commercial package	13,703	13,703	13,098	605
Medical	438,482	438,482	405,539	32,943
Commercial auto	11,217	11,217	11,545	(328)
Commercial umbrella	7,585	7,585	7,349	236
Group life insurance	31,735	31,735	27,282	4,453
Pension-defined benefit	260,000	260,000	260,000	-
Pension-defined contribution	139,448	139,448	118,823	20,625
Total Insurance	1,128,170	1,128,170	1,074,097	54,073
Salaries:				
Salaries-Fire Department	1,577,347	1,577,347	1,514,207	63,140
Salaries-Administrative	138,457	138,457	103,657	34,800
Replacement/Call-Backs	197,000	197,000	348,467	(151,467)
Fringe Benefits	97,222	97,222	140,634	(43,412)
FICA	123,560	123,560	126,715	(3,155)
Medicare	28,897	28,897	29,769	(872)
Payroll Tax Assessment	-	-	273	(273)
Total Salaries	2,162,483	2,162,483	2,263,722	(101,239)

(Continued)

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
Schedule of General Fund Expenditures-Budgetary Basis
Budget and Actual
For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Administration:				
Tax Collector's Expenses	\$ 10,670	10,670	14,750	(4,080)
Professional Organizations/Periodicals	1,500	1,500	2,278	(778)
Office Expenses/Supplies	5,500	5,500	6,597	(1,097)
Auditor	5,000	5,000	5,000	-
Professional Development	2,500	2,500	1,788	712
Postage	8,000	8,000	7,056	944
Contingency	3,000	3,000	2,472	528
Director's Compensation	6,000	6,000	8,000	(2,000)
Activity Expense	3,500	3,500	4,016	(516)
Professional Services	15,000	15,000	35,427	(20,427)
Office equipment	1,300	1,300	2,258	(958)
Actuarial services	4,250	4,250	4,800	(550)
Advertising/newsletter	6,150	6,150	5,091	1,059
Lien Fees	1,300	1,300	2,830	(1,530)
Archive services	1,000	1,000	752	248
Software support	4,000	4,000	6,457	(2,457)
Total Administration	78,670	78,670	109,572	(30,902)
Physical Plant:				
Repairs	12,000	12,000	15,977	(3,977)
Supplies-Maintenance	2,600	2,600	3,497	(897)
Services	3,000	3,000	2,282	718
Fire Code/ADA Compliance	20,000	20,000	21,460	(1,460)
Equipment	4,800	4,800	5,285	(485)
Total Physical Plant	42,400	42,400	48,501	(6,101)
Fire Department Operations:				
Emergency Medical Equipment	3,500	3,500	3,673	(173)
Computer Equipment & Supplies	2,500	2,500	2,266	234
Training	27,000	27,000	26,073	927
Public Fire Education	4,500	4,500	4,658	(158)
Firefighting Equipment (less than \$500)	9,000	9,000	9,096	(96)
Special Service Units	2,000	2,000	2,671	(671)
Fire Marshal's Office	2,750	2,750	2,699	51
Firefighting Equipment (more than \$500)	5,000	5,000	4,840	160
Uniforms	15,000	15,000	18,125	(3,125)
Protective Clothing	13,000	13,000	16,659	(3,659)
Communications	6,000	6,000	6,248	(248)
Cellular/Paging Services	6,836	6,836	6,612	224
Breathing Air & Oxygen	1,000	1,000	745	255
Medical Testing	5,500	5,500	7,721	(2,221)
Breathing Apparatus Testing & Repair	1,700	1,700	1,208	492
Respirator Fit Testing	800	800	-	800
Total Fire Department Operations	106,086	106,086	113,294	(7,208)
Capital Expenditures-Fire Truck	-	75,000	75,000	-
Total Expenditures Before Reserve Fund Transfer	3,608,059	3,683,059	3,805,594	(122,535)
Transfer to the Reserve Fund	149,088	149,088	149,088	-
Total Expenditures	\$ 3,757,147	3,832,147	3,954,682	(122,535)

**SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
DEFINED BENEFIT PENSION TRUST
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007**

I. Schedule of Employer Contributions

Year Ended June 30	Annual Recommended Contribution	Contribution Made	Percentage Contributed
1996	\$ 42,162	\$ 48,140	114%
1997	\$ 74,829	\$ 55,000	74%
1998	\$ 68,430	\$ 140,000	205%
1999	\$ 63,857	\$ 85,000	133%
2000	\$ 69,347	\$ 63,900	92%
2001	\$ 59,704	\$ 59,704	100%
2002	\$ 61,972	\$ 60,000	97%
2003	\$ 68,935	\$ 69,000	100%
2004	\$ 52,937	\$ 56,097	106%
2005	\$ 48,911	\$ 127,000	260%
2006	\$ 43,999	\$ 162,000	368%
2007	\$ 221,446	\$ 260,000	117%

II. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/1996	\$ 1,042,499	\$ 1,077,686	N/A	N/A	\$ 358,416	N/A
7/1/1997	\$ 805,903	\$ 920,873	N/A	N/A	\$ 316,262	N/A
7/1/1998	\$ 995,803	\$ 1,391,226	N/A	N/A	\$ 336,760	N/A
7/1/1999	\$ 652,800	\$ 1,091,756	N/A	N/A	\$ 259,928	N/A
7/1/2000	\$ 855,074	\$ 1,126,118	\$ 271,044	76%	\$ 250,933	108%
7/1/2001	\$ 433,403	\$ 839,429	\$ 406,026	52%	\$ 150,485	270%
7/1/2002	\$ 540,023	\$ 840,432	\$ 300,409	64%	\$ 132,554	227%
7/1/2003	\$ 635,003	\$ 905,405	\$ 270,402	70%	\$ 140,002	193%
7/1/2004	\$ 816,724	\$ 1,000,824	\$ 184,100	82%	\$ 151,004	122%
7/1/2005	\$ 15,115	\$ 536,341	\$ 521,226	3%	\$ -	** N/A
7/1/2006	\$ 261,941	\$ 561,164	\$ 299,223	47%	\$ -	** N/A

Note: Prior to July 1, 2000, the Aggregate Funding Method was used. Under the Aggregate Funding Method, there is no unfunded liability. Effective July 1, 2000, the Entry Age Normal Method was used. Effective July 1, 2005, the Individual Aggregate Method was used. Under this method, each participant is treated as having his or her own asset pool to fund the benefit.

** Historically, covered payroll was reported only for members without frozen benefits.

III. Notes to Required Supplementary Information:

Actuarial valuation date:	July 1, 2006
Actuarial cost method:	Individual Aggregate Cost Method
Actuarial asset valuation method:	Market value as of July 1
Actuarial assumptions:	
Investment rate of return:	3.0% to 5.0% per year depending on pre-retirement or post-retirement status.
Projected salary increases:	None-Benefits are frozen for all remaining participants.
Post retirement benefit increases:	None.
Inflation:	No explicit assumption.
Other:	Mortality tables: 1971 Group Annuity Mortality Table with ages set back 6 years. Retirement age: Age 55 or current age if later

SUPPLEMENTAL SCHEDULES

**SOUTH FIRE DISTRICT
OF THE CITY OF MIDDLETOWN**
Schedule of Property Taxes Levied, Collected and Outstanding
For the Year Ended June 30, 2007

Grand List Year	Due Date of Tax	Current Levy and Amount of Taxes Collectible 6/30/2006	Lawful Additions	Lawful (Deletions)	Transfers to Suspense	Adjusted Amount of Taxes Collectible	Taxes Collected	Interest Collected	Liens & Fees Collected	Total Collections	Amount of Taxes Collectible 6/30/2007
2005	7/1/2006	\$ 3,718,997	8,812	16,853	-	3,710,956	3,640,275	23,212	2,743	3,666,230	70,681
2004	7/1/2005	66,945	988	791	-	67,142	48,686	11,167	2,535	62,388	18,456
2003	7/1/2004	34,877	25	233	2,097	32,572	11,535	6,369	675	18,579	21,037
2002	7/1/2003	3,634	492	-	-	4,126	2,940	1,851	212	5,003	1,186
2001	7/1/2002	1,397	279	-	-	1,676	952	611	87	1,650	724
2000	7/1/2001	1,222	340	-	-	1,562	789	781	58	1,628	773
1999	7/1/2000	1,043	129	-	-	1,172	424	519	63	1,006	748
1998	7/1/1999	610	150	-	-	760	277	387	34	698	483
1997	7/1/1998	694	80	161	-	613	233	370	34	637	380
1996	7/1/1997	569	36	322	-	283	36	62	5	103	247
1995	7/1/1996	583	56	306	-	333	56	106	5	167	277
1994	7/1/1995	241	12	235	-	18	12	24	10	46	6
1993	7/1/1994	201	5	201	-	5	5	11	-	16	-
1992	7/1/1993	214	2	201	-	15	2	6	-	8	13
1991	7/1/1992	218	-	201	-	17	-	-	-	-	17
		\$ 3,831,445	11,406	19,504	2,097	3,821,250	3,706,222	45,476	6,461	3,758,159	115,028

Change in Property Taxes Receivable 2,580
Change in Deferred Property Tax Revenue 16,852

Tax Collector Revenue-Schedule RSI 1 \$ 3,777,591

SOUTH FIRE DISTRICT OF THE CITY OF MIDDLETOWN, CONNECTICUT
Schedule of Debt Limitation
June 30, 2007

Total tax collections, including interest and lien fees \$ 3,758,159

Reimbursement for loss of revenue:

Tax relief for the elderly homeowners-freeze -

Debt Limitation Base \$ 3,758,159

	General Purposes	Schools	Sewers	Urban Renewal	Pension Deficit
Debt Limitation:					
2-1/4 times base	\$ 8,455,858				
4-1/2 times base		16,911,716			
3-3/4 times base			14,093,096		
3-1/4 times base				12,214,017	
3 times base					11,274,477
Total Debt Limitation	<u>8,455,858</u>	<u>16,911,716</u>	<u>14,093,096</u>	<u>12,214,017</u>	<u>11,274,477</u>
District's Indebtedness, including compensated absences	668,641				
Debt Limitation in Excess of Outstanding and Authorized Debt	<u>\$ 7,787,217</u>	<u>16,911,716</u>	<u>14,093,096</u>	<u>12,214,017</u>	<u>11,274,477</u>

Total Capacity for Borrowing (7 Times Base) \$ 26,307,113

Present Indebtedness 668,641

Margin for Additional Borrowing \$ 25,638,472