

DANBY FIRE DISTRICT

Ithaca, New York

FINANCIAL REPORT

December 31, 2011

DANBY FIRE DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Danby Fire District
Ithaca, New York

We have audited the accompanying financial statements of each major fund of the Danby Fire District (the Fire District), as of and for the year ended December 31, 2011, which collectively comprise the Fire District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the 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.

As described in Note 1, the Danby Fire District prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the regulatory basis of accounting and budget laws of New York State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1. These differences, while not reasonably determinable, are presumed to be material.

In our opinion, because the Danby Fire District's policy is to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Danby Fire District, as of December 31, 2011, or changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of the Danby Fire District as of December 31, 2011 and the respective changes in financial position of the Danby Fire District for the year then ended, on the basis of accounting described in Note 1.

- 1 -

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In accordance with *Government Auditing Standards*, we have also issued a report dated April 16, 2012 on our consideration of the Danby 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 important for assessing the results of our audit.

Cinchi, Dickelgren, Little, Mickelson & Co., LLP

April 16, 2012
Ithaca, New York

DANBY FIRE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Governmental Fund Types			Total Governmental Funds
	General Fund	Reserve Fund	Capital Fund	
ASSETS				
Current Assets:				
Unrestricted cash	\$ 100,410	\$ _____	\$ _____	\$ 100,410
Total Current Assets	100,410	-0-	-0-	100,410
Noncurrent Assets:				
Restricted cash	_____	432,948	56,503	489,451
Total Noncurrent Assets	-0-	432,948	56,503	489,451
Total Assets	\$ 100,410	\$ 432,948	\$ 56,503	\$ 589,861
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 5,323	\$ _____	\$ _____	\$ 5,323
Retainage	_____	_____	14,650	14,650
Accrued Liabilities	852	_____	_____	852
Total Current Liabilities	6,175	-0-	14,650	20,825
FUND BALANCES/ NET ASSETS				
Fund Balances:				
Restricted:				
Capital	_____	301,401	41,853	343,254
Repairs	_____	131,547	_____	131,547
Total Restricted Fund Balances	-0-	432,948	41,853	474,801
Assigned:				
Fire Protection	2,084	_____	_____	2,084
Unassigned				
Total Fund Balances	94,235	432,948	41,853	569,036
Total Liabilities and Fund Balances	\$ 100,410	\$ 432,948	\$ 56,503	\$ 589,861

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental Fund Types			Total Governmental Fund Types
	General Fund	Reserve Fund	Capital Fund	
REVENUES				
Real property taxes	\$ 370,890	\$	\$	\$ 370,890
Use of money and property	75	672		747
Miscellaneous local sources	1,920			1,920
Foreign fire insurance tax passthrough	4,685			4,685
 Total Revenues	 377,570	 672	 -0-	 378,242
EXPENDITURES/EXPENSES				
Wages	15,906			15,906
Fire	138,259			138,259
Other costs	34			34
Foreign fire insurance tax passthrough	4,685			4,685
Equipment and capital outlay	26,063		45,796	71,859
Employee benefits	28,605			28,605
Debt Servic - Principal	69,339			69,339
- Interest	39,348			39,348
 Total Expenditures/Expenses	 322,239	 -0-	 45,796	 368,035
OTHER FINANCING (USES) SOURCES				
Transfers (to) other funds	(94,563)			(94,563)
Transfers from other funds		78,435	16,128	94,563
 Total Other Financing (Uses) Sources	 (94,563)	 78,435	 16,128	 -0-
 Excess of Revenues and Other Financing Sources over Expenditures/Expenses and Other Financing (Uses)	 (39,232)	 79,107	 (29,668)	 10,207
 Fund Balances, Beginning of Year, Restated	 133,467	 353,841	 71,521	 558,829
 Fund Balances, End of Year	 \$ 94,235	 \$ 432,948	 \$ 41,853	 \$ 569,036

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund				
	Original Budget	Modified Budget	Actual	Encumbrances	Variance Fav.(Unfav.)
REVENUES					
Real property taxes	\$ 370,890	\$ 370,890	\$ 370,890	\$	\$ -0-
Use of money and property			75		75
Miscellaneous local sources			1,920		1,920
Foreign fire insurance tax passthrough			4,685		4,685
 Total Revenues	 370,890	 370,890	 377,570	 -0-	 6,680
EXPENDITURES					
Wages	20,000	16,000	15,906		94
Fire	120,265	154,245	138,259		15,986
Other costs		3,000	34		2,966
Equipment and capital outlay	45,073	29,400	26,063	2,084	1,253
Employee benefits	47,765	30,458	28,605		1,853
Debt service - Principal	69,339	69,339	69,339		-0-
- Interest	39,348	39,348	39,348		-0-
Foreign fire insurance tax passthrough			4,685		(4,685)
 Total Expenditures	 341,790	 341,790	 322,239	 2,084	 17,467
OTHER FINANCING (USES)					
Transfers to other funds	(30,000)	(30,000)	(94,563)		(64,563)
Total Financing (Uses)	(30,000)	(30,000)	(94,563)	-0-	(64,563)
 Excess of (Expenditures) and Other Financing (Uses) over Revenues and Other Financing Sources	 (900)	 (900)	 (39,232)	 \$ (2,084)	 \$ (40,416)
 Carryover Encumbrances	 900	 900			
 NET DECREASE	 \$ -0-	 \$ -0-	 (39,232)		
 Fund Balance, Beginning of Year			 133,467		
 Fund Balance, End of Year			 \$ 94,235		

See Independent Auditor's Report and Notes to Required Supplementary Information

DANBY FIRE DISTRICT
SCHEDULE OF NONCURRENT ASSETS AND LIABILITIES
DECEMBER 31, 2011

NONCURRENT GOVERNMENT ASSETS

Land	\$ 9,900
Buildings	1,750,281
Machinery and equipment	<u>881,130</u>
Total Noncurrent Government Assets	<u>\$ 2,641,311</u>

NONCURRENT GOVERNMENT LIABILITIES

Notes payable	\$ 263,879
Bonds payable	<u>573,000</u>
Total Noncurrent Government Liabilities	<u>\$ 836,879</u>

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Danby Fire District (the Fire District) have been prepared in conformity with the accounting principles prescribed by the New York State Office of the State Comptroller, and are not intended to be a complete presentation in accordance with accounting principles generally accepted in the United States. The financial statements do not include a Statement of Net Assets or a Statement of Activities for the Governmental Activities, prepared on the accrual basis of accounting, or a management's discussion and analysis. The more significant of the Fire District's accounting policies are described below.

A. Reporting Entity

The Fire District, organized in 1946, furnishes fire protection and emergency medical services for the Town of Danby with two fire companies located in the hamlets of Danby and West Danby. The Fire District is governed by General Municipal Law, Article 3, Section 30.

The Fire District operations, including the financing thereof through real property taxation, are carried out at the direction of the Board of Fire Commissioners. The Board consists of five commissioners elected to five year terms by voters living within the Fire District.

All activities and functions performed by the Fire District are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity consists of the following, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units."

1. The primary government, which is the Danby Fire District;
2. Organizations for which the primary government is financially accountable, and;
3. Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

The decision to include a potential component unit in the reporting entity is based on the criteria set forth in GASB Statement No. 14 (as amended by GASB 39) including legal standing, fiscal dependency, and financial accountability.

B. Basis of Presentation - Fund Accounting

The Fire District's basic financial statements include columns for Governmental Fund Types prepared on the modified accrual basis of accounting (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance).

Fund Accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

The Fire District records its transactions in the fund types described below:

Fund Categories

Governmental Fund Types - funds through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources, and the related liabilities are accounted for through Governmental Funds. The measurement focus of the Governmental Funds is based upon determination of financial position and changes in financial position. The following are the Fire District's Governmental Fund Types:

General Fund - The principal operating fund which includes all operations not required to be recorded in other funds.

Reserve Fund - Reserved for capital projects and repairs.

Capital Fund - Used to account for and report financial resources to be used for the acquisition, construction, or renovation of major capital facilities, or equipment which is funded with proceeds of debt.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

The Governmental Fund columns are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Fire District considers all revenues reported in the Governmental Funds to be available if the revenues are collected within six months after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in Governmental Funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Capital Assets

All capital assets are valued at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repair and maintenance are expensed as incurred. Capital assets purchased or acquired with an original cost of at least \$5,000 and having a useful life of greater than one year are capitalized.

E. Equity Classifications

In the year ending December 31, 2011, the Fire District implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement No. 54 changes the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Constraints are broken into five classifications: nonspendable, restricted, committed, assigned, and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

- **Nonspendable**
Consists of assets inherently nonspendable in the current period either because of their form or because they must be maintained intact; including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and endowments principal.
- **Restricted**
Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation. Most of The Fire Districts legally adopted reserves are reported here.
- **Committed**
Consists of amounts subject to a purpose constraint imposed by formal action of the government's highest level of decision-making authority, which is the Board of Fire Commissioners, prior to the end of the fiscal year, which requires the same level of formal action to remove said constraint.
- **Assigned**
Consists of amounts subject to a purpose constraint representing an intended use established by the government's highest level of decision-making authority, which is the Board of Fire Commissioners, or their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.
- **Unassigned**
Represents the residual classification of the government's General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance resulting from overspending amounts restricted, committed, or assigned for specific purposes.

The Fire District has not adopted any resolutions to commit fund balance. The Fire District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

F. Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements take place when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 2 - Detail Notes

A. Assets

1. Cash and Investments

The Fire District's investment policies are governed by state statutes. In addition, the Fire District follows its written investment policy. The Fire District's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral (security) is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance at 105%. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts as set forth in the investment policy.

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of three months or less.

Custodial credit risk is the risk that in the event of a bank failure, the Fire District's deposits may not be returned to it. While the Fire District does not have a specific policy for custodial credit risk, New York State statutes govern the Fire District's investment policies, as discussed previously in these notes. Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent (in the Fire District's name).

The Fire District's aggregate bank balances, cash, cash equivalents, and money market funds of \$591,861 are either insured or collateralized with securities held by the pledging financial institution in the Fire District's name.

2. Capital Assets

Capital asset balances and activity for the year ended December 31, 2011, were as follows:

	Balance at 12/31/10	Additions	Retirements & Reclass- ifications	Balance at 12/31/11
Land	\$ 9,900	\$	\$	\$ 9,900
Buildings and building improvements	1,704,485	45,796		1,750,281
Apparatus and vehicles	857,355			857,355
Other equipment	23,775			23,775
 Total Historical Cost	 \$ 2,595,515	 \$ 45,796	 \$ -0-	 \$ 2,641,311

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

B. Liabilities

1. Indebtedness

At December 31, 2011, the total outstanding indebtedness of the Fire District aggregated \$836,879. Of this amount, all was subject to the constitutional debt limit, and represented 10.95% of the limit.

a. Bonds

The Fire District borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the local government, are liquidated from the General Fund.

b. Changes in Indebtedness

The following represents changes in the Fire District's indebtedness and interest expenditures recognized during the year ended December 31, 2011:

	Balance January 1,	Additions	Deletions	Balance December 31,	Amount Due within One Year
Bonds and Loan Payable	\$ 906,218	\$ -0-	\$ (69,339)	\$ 836,879	\$ 69,647
Interest paid on long-term debt during the year was:					\$ 39,348

The following is a summary of the maturity of indebtedness:

Description	Original Date Issued	Original Amount	Interest Rate	Date Final Maturity	Outstanding
Bonds and Loan Payable:					
West Danby station	1993	\$ 485,000	5.70%	2013	\$ 60,000
Building addition	2008	300,000	2.50%	2028	263,879
Building addition	2010	540,000	5.35%	2030	513,000
Total					\$ 836,879

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

The following table summarizes the Fire District's future debt service requirements as of December 31, 2011.

<u>Year Ending</u>	<u>Bonds and Loan</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 69,647	\$ 32,885	\$ 102,532
2013	69,963	32,415	102,378
2014	40,287	29,791	70,078
2015	40,619	28,015	68,634
2016	40,960	26,229	67,189
2017-2021	210,212	104,067	314,279
2022-2026	220,096	58,070	278,166
2027-2030	145,095	12,949	158,044
 Total	 <u>\$ 836,879</u>	 <u>\$ 324,421</u>	 <u>\$ 1,161,300</u>

C. Fund Equity

Restricted fund equity includes restricted funds established for building and equipment purchases. Changes in these restricted funds for the year ended December 31, 2011 are as follows:

	<u>Restated Balance at 12/31/10</u>	<u>Transfers In</u>	<u>Interest Allocated</u>	<u>Funds Used</u>	<u>Balance at 12/31/11</u>
Restricted Funds:					
Capital reserve	\$ 252,697	\$ 48,213	\$ 491	\$	\$ 301,401
Repair reserve	101,144	30,222	181		131,547
 Total	 <u>\$ 353,841</u>	 <u>\$ 78,435</u>	 <u>\$ 672</u>	 <u>\$ -0-</u>	 <u>\$ 432,948</u>

Cash of \$432,948 has been restricted to fund these reserves.

During the year, it was revealed that a bank account was erroneously included in the Reserve Fund. Even though the name on the account was "General," it was included as part of the reserves. As a result, beginning fund balance was increased in the General Fund and decreased in the Reserve Fund by \$89,516, the balance in that bank account at December 31, 2010.

D. Interfund Receivables and Payables

During the course of normal operations, the District has numerous transactions between funds including expenditures and transfers of resources primarily to provide services and transfer funds to reserves and from reserves to the Capital Fund for capital projects. The Governmental Fund financial statements generally reflect such transactions as transfers.

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Interfund transfer balances at December 31, 2011 are as follows:

	Interfund Transfer Revenue	Interfund Transfer Expense
General Fund	\$	\$ 94,563
Reserve Fund	78,435	
Capital Projects Fund	16,128	
Total	\$ 94,563	\$ 94,563

Note 3 - Stewardship

In the General Fund, transfers to other funds were overexpended by \$64,563 at December 31, 2011. The overexpenditure is due to transfers to the Reserve and Capital Funds. Also, the foreign fire insurance tax pass through revenue and expenditure are not budgeted.

Note 4 - Budget Basis of Accounting

Except as indicated below, budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. Encumbrances are not considered a disbursement in the financial plan or an expenditure in GAAP based financial statements.

Note 5 - Budget Policies

The budget policies are as follows:

- a. Fire districts must prepare a proposed budget and hold a public hearing to discuss its contents. The law specifies the public hearing must be held on the third Tuesday in October. The hearing must be conducted and scheduled in a manner to maximize public participation. At least five days prior to the date of the hearing, notice of the hearing must be published at least once in the fire district's official newspaper or, if a fire district does not have an official newspaper, in a newspaper having general circulation within the district. Similarly, at least five days prior to the date of the hearing, a copy of the notice must be posted on the signboard maintained by the town clerk of each of the towns in which the fire district is located. The notice must also be posted on the municipal and/or fire district websites, if such websites exist. The hearing notice must state the time and place where the hearing will be held, the purpose of the hearing, and that a copy of the proposed budget is available for inspection during office hours in the offices of the fire district secretary and the town clerk in each town in which the district is located.

At the hearing, any person may be heard in favor of or against the proposed budget or one or more items in the proposed budget. On or before November 20 each year, the Board of Fire Commissioners must submit a final budget to the budget officer of each town in which the fire district is located.

- b. All modifications of the budget must be approved by the Board of Fire Commissioners.

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

- c. Appropriations lapse at year end.
- d. There were no supplemental appropriations.

Note 6 - Commitments and Contingencies

A. Risk Financing and Related Insurance

General Information

The Danby Fire District is exposed to various risks of loss related to, but not limited to, torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

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**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**

Board of Commissioners
Danby Fire District
Ithaca, New York

We have audited the financial statements of each major fund of the Danby Fire District (the Fire District) as of and for the year ended December 31, 2011, which collectively comprise the Fire District's basic financial statements and have issued our report thereon dated April 16, 2012. 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 Fire District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fire District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Danby Fire District's internal control to be significant deficiencies:

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Budgeting and Overexpended Budget

Findings:

During our prior year audit, we noted the budget was not modified throughout the year and only property tax revenue was budgeted. This resulted in overexpenditures in the General Fund for unbudgeted or greater than budgeted transfers to the Reserve Fund as well as other overexpenditures.

During our current year audit, we noted the budget was modified throughout the year, with the exception of transfers to other funds. This resulted in an overexpenditure in the General Fund for greater than budgeted transfers to the Capital and Reserve Funds.

Recommendation:

We continue to recommend expenditures be tracked to the same level of detail as the budget. The budget should continue to be monitored throughout the year and modified as necessary.

Management Response:

As of March 2011, budgets have been switched over to QuickBooks. With that, we implemented the means to control budgets showing: Proposed, Adopted, As Modified and Actual. Changes will be further supported by documented resolutions and budget notes.

Prior Year Findings Resolved

Books of Account and Annual Update Document

Finding:

During our prior year audit, we noted the books of account recorded in Quicken were not easily reconcilable with the Annual Update Document (AUD). Revenues in Quicken were recorded using transfers and not properly recorded as revenues. Similarly, transfers were used to record some expenditures and expenditures from the reserves were not readily apparent. Although reconciliation to the AUD was provided, it was difficult to tie to Quicken.

Additionally, revenues and expenditures should have been coded to the same level of detail as the budget, which contains line items such as supplies, conferences, training, fuel, telephone, insurance, repairs and others as appropriate, enabling budget performance to be tracked more easily.

Resolution:

Books of accounts have been transferred to QuickBooks with the addition of more detailed accounts and standardized account numbers. Although audit adjustments to Quickbooks were required to reconcile beginning fund balances and clear up issues related to the prior year, we believe these adjustments were related to the transition to Quickbooks and not related to current accounting practices.

Bank Reconciliations

Finding:

During our prior year audits, we noted bank reconciliations were performed by the same individual who had custody of the funds and performed recordkeeping functions, and it did not appear that bank reconciliations were routinely performed.

Resolution:

Fiscal year bank statements were opened and initialed by one of the commissioners. Bank reconciliations also were performed routinely during in 2011.

Records Location

Finding:

During our prior audits, we noted records and documentation of Fire District financial activity are not located at the Fire District office.

Resolution:

All financial records are now kept in a secure storage area in the Danby Fire District Office at 1780 Danby Road.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain other matters that we reported to the management of the Fire District, in a separate letter dated April 16, 2012.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the Fire District, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cinchi, DiStefano, Little, Mickelson & Co., LLP

April 16, 2012
Ithaca, New York