

DANBY FIRE DISTRICT

Ithaca, New York

FINANCIAL REPORT

December 31, 2013

DANBY FIRE DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Danby Fire District
Ithaca, New York

Report on the Financial Statements

We have audited the accompanying regulatory basis financial statements of each major fund of the Danby Fire District (the Fire District), as of December 31, 2013, and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the *Accounting and Reporting Manual for Fire Districts* published by the Office of the New York State Comptroller, as described in Note 1, to meet the requirements of the State of New York. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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

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

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

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Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of New York, the financial statements are prepared by the Fire District on the basis of the financial reporting provisions of the *Accounting and Reporting Manual for Fire Districts* published by the Office of the New York State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinions on Generally Accepted Accounting Principles* paragraphs, the financial statements referred to above do not present fairly in accordance with accounting principles generally accepted in the United States of America, the financial position of the Fire District as of December 31, 2013, or the revenues, expense, and changes in net position and, when applicable, cash flows thereof for the year then ended.

Opinions on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis financial position of each major fund of the Danby Fire District, as of December 31, 2013, and the regulatory basis revenues, expenses, and changes in fund balances for the year then ended in accordance with the financial reporting provisions of the *Accounting and Reporting Manual for Fire Districts* published by the Office of the New York State Comptroller, as described in Note 1.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2014 on our consideration of the Danby Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District's internal control over financial reporting and compliance.

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

May 9, 2014
Ithaca, New York

DANBY FIRE DISTRICT
BALANCE SHEET
REGULATORY BASIS
DECEMBER 31, 2013

	Governmental Fund Types			Total Governmental Funds
	General Fund	Reserve Fund	Capital Fund	
ASSETS				
Current Assets:				
Unrestricted cash	\$ 96,982	\$ -	\$ -	\$ 96,982
Total Current Assets	96,982	-0-	-0-	96,982
Noncurrent Assets:				
Restricted cash		248,982	20,684	269,666
Total Noncurrent Assets	-0-	248,982	20,684	269,666
Total Assets	\$ 96,982	\$ 248,982	\$ 20,684	\$ 366,648
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 284	\$ -	\$ -	\$ 284
Accrued Liabilities	1,012			1,012
Total Current Liabilities	1,296	-0-	-0-	1,296
FUND BALANCES				
Fund Balances:				
Restricted:				
Debt			20,684	20,684
Capital		99,683		99,683
Repairs		149,299		149,299
Total Restricted Fund Balances	-0-	248,982	20,684	269,666
Unassigned	95,686			95,686
Total Fund Balances	95,686	248,982	20,684	365,352
Total Liabilities and Fund Balances	\$ 96,982	\$ 248,982	\$ 20,684	\$ 366,648

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Governmental Fund Types			Total Governmental Funds
	General Fund	Reserve Fund	Capital Fund	
REVENUES				
Real property taxes	\$ 381,998	\$	\$	\$ 381,998
Use of money and property	229	323		552
Miscellaneous local sources	4,984			4,984
 Total Revenues	 387,211	 323	 -0-	 387,534
EXPENDITURES/EXPENSES				
Wages	17,000			17,000
Fire protection	148,133			148,133
Equipment and capital outlay	28,449		757,124	785,573
Employee benefits	29,181			29,181
Debt Service - Principal	69,963			69,963
- Interest	32,415			32,415
 Total Expenditures/Expenses	 325,141	 -0-	 757,124	 1,082,265
OTHER FINANCING SOURCES (USES)				
Transfers from other funds		40,000	304,000	344,000
Proceeds of obligations			453,124	453,124
Transfers (to) other funds	(40,000)	(304,000)		(344,000)
 Total Other Financing Sources (Uses)	 (40,000)	 (264,000)	 757,124	 453,124
 Excess of Revenues and Other Financing Sources over Expenditures/Expenses and Other Financing (Uses)	 22,070	 (263,677)	 -0-	 (241,607)
 Fund Balances, Beginning of Year	 73,616	 512,659	 20,684	 606,959
 Fund Balances, End of Year	 \$ 95,686	 \$ 248,982	 \$ 20,684	 \$ 365,352

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund				
	Original Budget	Modified Budget	Actual	Encum- brances	Variance Fav.(Unfav.)
REVENUES					
Real property taxes	\$ 381,998	\$ 381,998	\$ 381,998	\$	\$ -0-
Use of money and property			229		229
Miscellaneous local sources			4,984		4,984
 Total Revenues	 381,998	 381,998	 387,211	 -0-	 5,213
EXPENDITURES					
Wages	17,000	17,000	17,000		-0-
Fire protection	163,944	163,944	148,133		15,811
Equipment and capital outlay	28,500	28,500	28,449		51
Employee benefits	30,176	30,176	29,181		995
Debt service - Principal	69,963	69,963	69,963		-0-
- Interest	32,415	32,415	32,415		-0-
 Total Expenditures	 341,998	 341,998	 325,141	 -0-	 16,857
OTHER FINANCING SOURCES (USES)					
Transfers (to) other funds	(40,000)	(40,000)	(40,000)		-0-
Total Financing Sources (Uses)	(40,000)	(40,000)	(40,000)	-0-	-0-
 Excess of Revenues and Other Financing Sources over (Expenditures) and Other Financing (Uses)	 -0-	 -0-	 22,070	 \$ -0-	 \$ 22,070
Carryover Encumbrances					
 NET INCREASE	 \$ -0-	 \$ -0-	 22,070		
Fund Balance, Beginning of Year			73,616		
Fund Balance, End of Year			\$ 95,686		

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
SCHEDULES OF NONCURRENT GOVERNMENT ASSETS AND LIABILITIES
REGULATORY BASIS
DECEMBER 31, 2013

NONCURRENT GOVERNMENT ASSETS

Land	\$ 9,900
Buildings	1,770,541
Accumulated depreciation - Buildings	(472,307)
Machinery and equipment	1,634,846
Accumulated depreciation - Machinery and equipment	<u>(446,612)</u>
 Total Noncurrent Government Assets	 \$ <u><u>2,496,368</u></u>

NONCURRENT GOVERNMENT LIABILITIES

Notes payable	\$ 238,269
Bonds payable	<u>912,124</u>
 Total Noncurrent Government Liabilities	 \$ <u><u>1,150,393</u></u>

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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 *Accounting and Reporting Manual for Fire Districts* published by the Office of the New York State Comptroller, and are not intended to be a complete presentation in accordance with accounting principles generally accepted in the United States (GAAP) established by the Governmental Accounting Standards Board (GASB). The financial statements do not include a Statement of Net Position 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 GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements Nos. 14 and 34."

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 Statement Nos. 39 and 61) 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, 2013

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.

Governmental Funds 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. Useful lives of governmental capital assets range from 5 to 40 years and are depreciated using the straight line method.

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013

E. Equity Classifications

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 endowment 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 District's 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, 2013

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 \$370,937, with a carrying value of \$366,648 are either insured or collateralized with securities held by the pledging financial institution in the Fire District's name.

Restricted cash totaling \$269,666, consists of \$99,683 restricted for capital and \$149,299 restricted for repairs in the Reserve Fund and \$20,684 unspent debt proceeds in the Capital Fund.

2. Capital Assets

Capital asset balances and activity for the year ended December 31, 2013, were as follows:

	Balance at 12/31/12	Additions	Retirements & Reclass- ifications	Balance at 12/31/13
Land	\$ 9,900	\$	\$	\$ 9,900
Buildings and building improvements	1,770,541			1,770,541
Apparatus and vehicles	857,355	753,716		1,611,071
Other equipment	23,775			23,775
Total Historical Cost	\$ 2,661,571	\$ 753,716	\$ -0-	\$ 3,415,287
Less: Accumulated depreciation	(859,511)	(59,408)		(918,919)
Total Noncurrent Government Assets	<u>\$ 1,802,060</u>	<u>\$ 694,308</u>	<u>\$ -0-</u>	<u>\$ 2,496,368</u>

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013

B. Liabilities

1. Indebtedness

At December 31, 2013, the total outstanding indebtedness of the Fire District aggregated \$1,150,393. Of this amount, all was subject to the constitutional debt limit, and represented 13.96% 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, 2013:

	Balance January 1,	Additions	Deletions	Balance December 31,	Amount Due within One Year
Bonds and Loan Payable	\$ 767,232	\$ 453,124	\$ (69,963)	\$ 1,150,393	\$ 70,495
Interest paid on long-term debt during the year was:					\$ 32,415

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:					
Building addition	2008	300,000	2.50%	2028	\$ 238,269
Building addition	2010	540,000	5.35%	2030	459,000
Fire truck purchases	2013	453,124	3.75%	2028	453,124
Total					\$ 1,150,393

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013

The following table summarizes the Fire District's future debt service requirements as of December 31, 2013.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 70,495	\$ 44,093	\$ 114,588
2015	70,827	43,308	114,135
2016	71,168	40,389	111,557
2017	71,517	37,463	108,980
2018	71,875	34,528	106,403
2019-2023	365,060	128,295	493,355
2024-2028	375,449	53,473	428,922
2029-2030	<u>54,002</u>	<u>2,889</u>	<u>56,891</u>
Total	<u>\$ 1,150,393</u>	<u>\$ 384,438</u>	<u>\$ 1,534,831</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, 2013 are as follows:

	<u>Balance at 12/31/12</u>	<u>Transfers</u>	<u>Interest Allocated</u>	<u>Funds Used</u>	<u>Balance at 12/31/13</u>
Restricted Funds:					
Capital reserve	\$ 375,970	\$ 27,500	\$ 213	\$ (304,000)	\$ 99,683
Debt reserve		20,684			20,684
Repair reserve	<u>136,689</u>	<u>12,500</u>	<u>110</u>		<u>149,299</u>
Total	<u>\$ 512,659</u>	<u>\$ 60,684</u>	<u>\$ 323</u>	<u>\$ (304,000)</u>	<u>\$ 269,666</u>

Cash of \$269,666 has been restricted to fund these reserves.

D. Interfund Receivables and Payables

During the course of normal operations, the Fire 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.

Interfund transfer balances at December 31, 2013 are as follows:

	<u>Interfund Transfer Revenue</u>	<u>Interfund Transfer Expense</u>
General Fund	\$ -0-	\$ 40,000
Reserve Fund	40,000	304,000
Capital Fund	<u>304,000</u>	<u>-0-</u>
Total	<u>\$ 344,000</u>	<u>\$ 344,000</u>

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 3 - 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 4 - 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.
- c. Appropriations lapse at year end.
- d. There were no supplemental appropriations.

Note 5 - Commitments and Contingencies

Risk Financing and Related Insurance

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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**INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the regulatory basis financial statements of each major fund of the Danby Fire District (Fire District) for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements, and have issued our report thereon dated May 9, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Danby Fire District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

May 9, 2014
Ithaca, New York