

DANBY FIRE DISTRICT

Ithaca, New York

FINANCIAL REPORT

December 31, 2012

DANBY FIRE DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2012

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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, 2012, 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 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 GAAP in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, because the Danby Fire District's policy is to prepare its financial statements on the basis of accounting discussed in the following 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, 2012, 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, 2012 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.

Other Matters

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.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2013 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, Dittulyn, Little, Mickelson & Co., LLP

March 29, 2013
Ithaca, New York

DANBY FIRE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Governmental Fund Types			Total Governmental Funds
	General Fund	Reserve Fund	Capital Fund	
ASSETS				
Current Assets:				
Unrestricted cash	\$ 73,616	\$ -	\$ -	\$ 73,616
Total Current Assets	73,616	-0-	-0-	73,616
Noncurrent Assets:				
Restricted cash		512,659	20,684	533,343
Total Noncurrent Assets	-0-	512,659	20,684	533,343
Total Assets	\$ 73,616	\$ 512,659	\$ 20,684	\$ 606,959
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -0-
Retainage				-0-
Accrued Liabilities				-0-
Total Current Liabilities	-0-	-0-	-0-	
FUND BALANCES				
Fund Balances:				
Restricted:				
Capital		375,970	20,684	396,654
Repairs		136,689		136,689
Total Restricted Fund Balances	-0-	512,659	20,684	533,343
Assigned:				
Fire Protection				-0-
Unassigned				
Total Fund Balances	73,616	512,659	20,684	606,959
Total Liabilities and Fund Balances	\$ 73,616	\$ 512,659	\$ 20,684	\$ 606,959

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, 2012

	Governmental Fund Types			Total Governmental Fund Types
	General Fund	Reserve Fund	Capital Fund	
REVENUES				
Real property taxes	\$ 372,375	\$	\$	\$ 372,375
Use of money and property	214	494		708
Miscellaneous local sources	2,938			2,938
Foreign fire insurance tax passthrough	5,095			5,095
 Total Revenues	 380,622	 494	 -0-	 381,116
EXPENDITURES/EXPENSES				
Wages	16,000			16,000
Fire	135,070			135,070
Foreign fire insurance tax passthrough	5,095			5,095
Equipment and capital outlay	31,158		21,169	52,327
Employee benefits	29,169			29,169
Debt Service - Principal	69,647			69,647
- Interest	35,885			35,885
 Total Expenditures/Expenses	 322,024	 -0-	 21,169	 343,193
OTHER FINANCING (USES) SOURCES				
Transfers (to) other funds	(79,217)			(79,217)
Transfers from other funds		79,217		79,217
 Total Other Financing (Uses) Sources	 (79,217)	 79,217	 -0-	 -0-
 Excess of Expenditures/Expenses and Other Financing (Uses) over Revenues and Other Financing Sources	 (20,619)	 79,711	 (21,169)	 37,923
 Fund Balances, Beginning of Year	 94,235	 432,948	 41,853	 569,036
 Fund Balances, End of Year	 \$ 73,616	 \$ 512,659	 \$ 20,684	 \$ 606,959

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund				
	Original Budget	Modified Budget	Actual	Encumbrances	Variance Fav.(Unfav.)
REVENUES					
Real property taxes	\$ 372,375	\$ 372,375	\$ 372,375	\$	\$ -0-
Use of money and property			214		214
Miscellaneous local sources			2,938		2,938
Foreign fire insurance tax passthrough			5,095		5,095
 Total Revenues	 <u>372,375</u>	 <u>372,375</u>	 <u>380,622</u>	 <u>-0-</u>	 <u>8,247</u>
EXPENDITURES					
Wages	16,000	16,000	16,000		-0-
Fire	152,527	152,527	135,070		17,457
Equipment and capital outlay	30,584	30,584	31,158		(574)
Employee benefits	29,816	29,816	29,169		647
Debt service - Principal	69,647	69,647	69,647		-0-
- Interest	35,885	35,885	35,885		-0-
Foreign fire insurance tax passthrough			5,095		(5,095)
 Total Expenditures	 <u>334,459</u>	 <u>334,459</u>	 <u>322,024</u>	 <u>-0-</u>	 <u>12,435</u>
OTHER FINANCING (USES)					
Transfers to other funds	(40,000)	(40,000)	(79,217)		(39,217)
Total Financing (Uses)	<u>(40,000)</u>	<u>(40,000)</u>	<u>(79,217)</u>	<u>-0-</u>	<u>(39,217)</u>
 Excess of (Expenditures) and Other Financing (Uses) over Revenues and Other Financing Sources	 <u>(2,084)</u>	 <u>(2,084)</u>	 <u>(20,619)</u>	 <u>\$ -0-</u>	 <u>\$ (18,535)</u>
 Carryover Encumbrances	 <u>2,084</u>	 <u>2,084</u>			
 NET DECREASE	 <u>\$ -0-</u>	 <u>\$ -0-</u>	 <u>(20,619)</u>		
 Fund Balance, Beginning of Year			 <u>94,235</u>		
 Fund Balance, End of Year			 <u>\$ 73,616</u>		

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

DANBY FIRE DISTRICT
SCHEDULE OF NONCURRENT ASSETS AND LIABILITIES
DECEMBER 31, 2012

NONCURRENT GOVERNMENT ASSETS

Land	\$ 9,900
Buildings	1,770,541
Machinery and equipment	<u>881,130</u>
Total Noncurrent Government Assets	<u>\$ 2,661,571</u>

NONCURRENT GOVERNMENT LIABILITIES

Notes payable	\$ 251,232
Bonds payable	<u>516,000</u>
Total Noncurrent Government Liabilities	<u>\$ 767,232</u>

See Independent Auditor's Report and Notes to Financial Statements

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 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 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, 2012

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 - 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, 2012

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 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 then 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, 2012

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 \$614,152, with a carrying value of \$606,959 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, 2012, were as follows:

	Balance at 12/31/11	Additions	Retirements & Reclass- ifications	Balance at 12/31/12
Land	\$ 9,900	\$	\$	\$ 9,900
Buildings and building improvements	1,750,281	20,260		1,770,541
Apparatus and vehicles	857,355			857,355
Other equipment	23,775			23,775
 Total Historical Cost	 \$ 2,641,311	 \$ 20,260	 \$ -0-	 \$ 2,661,571

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

B. Liabilities

1. Indebtedness

At December 31, 2012, the total outstanding indebtedness of the Fire District aggregated \$767,232. Of this amount, all was subject to the constitutional debt limit, and represented 9.52% of the limit.

a. Bonds and Loans Payable

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, 2012:

	Balance January 1,	Additions	Deletions	Balance December 31,	Amount Due within One Year
Bonds and Loan Payable	\$ 836,879	\$ -0-	\$ (69,647)	\$ 767,232	\$ 69,963
Interest paid on long-term debt during the year was:					\$ 35,885

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	\$ 30,000
Building addition	2008	300,000	2.50%	2028	251,232
Building addition	2010	540,000	5.35%	2030	486,000
Total					\$ 767,232

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

The following table summarizes the Fire District's future debt service requirements as of December 31, 2012.

<u>Year Ending</u>	<u>Bonds and Loan</u>	<u>Interest</u>	<u>Total</u>
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	41,309	24,436	65,745
2018-2022	212,092	94,964	307,056
2023-2027	222,224	48,720	270,944
2028-2030	99,778	6,966	106,744
Total	\$ 767,232	\$ 291,536	\$ 1,058,768

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, 2012 are as follows:

	<u>Balance at 12/31/11</u>	<u>Transfers In</u>	<u>Interest Allocated</u>	<u>Funds Used</u>	<u>Balance at 12/31/12</u>
Restricted Funds:					
Capital reserve	\$ 301,401	\$ 74,217	\$ 352	\$	\$ 375,970
Repair reserve	131,547	5,000	142		136,689
Total	\$ 432,948	\$ 79,217	\$ 494	\$ -0-	\$ 512,659

Cash of \$512,659 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, 2012 are as follows:

	<u>Interfund Transfer Revenue</u>	<u>Interfund Transfer Expense</u>
General Fund	\$ 79,217	\$ 79,217
Reserve Fund	79,217	
Total	\$ 79,217	\$ 79,217

DANBY FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 3 - Stewardship

In the General Fund, transfers to other funds were overexpended by \$(39,217) at December 31, 2012. The overexpenditure is due to transfers to the Reserve Fund. Also, the foreign fire insurance tax pass through revenue and expenditure were not budgeted for 2012. The \$(574) overexpenditure in equipment and capital overlay resulted from an audit adjustment.

Note 4 - Budget Basis of Accounting

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 the financial statements.

Note 5 - Budget Policies

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 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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Certified Public Accountants and Consultants

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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, 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, each major fund, for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Danby Fire District's (the Fire District) basic financial statements, and have issued our report thereon dated March 29, 2013.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We consider the following deficiency in internal control to be a significant deficiency:

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Budgeting and Overexpended Budget

Condition:

During our current and prior year audits, we noted the budget was not modified throughout the year. This resulted in an overexpenditure in the General Fund for greater than budgeted transfers to the Capital and Reserve Funds.

Cause/Effect:

Per New York State General Municipal Law, management is responsible for following the approved use of Fire District funds in accordance with the approved budget. As a result of not amending the budget throughout the year, the budget was overspent at year-end.

Recommendation:

We continue to recommend the budget be monitored throughout the year and modified as necessary.

Management Response:

As of February 2013, we agree the budget should be monitored throughout the year and modified as necessary. Any changes to the budget will be further supported by documented resolutions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Fire District's Response to Findings

The Fire District's response to the finding identified in our audit is described above. The Fire District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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 Fire District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

March 29, 2013
Ithaca, New York