

**DORSET FIRE DISTRICT NO. 1
DORSET, VERMONT**

**FINANCIAL STATEMENTS
JUNE 30, 2016
AND
INDEPENDENT AUDITOR'S REPORTS**

DORSET FIRE DISTRICT NO. 1

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

The Prudential Committee
Dorset Fire District No. 1

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Dorset Fire District No. 1 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 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 accounting principles generally accepted in the United States of America; 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 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dorset Fire District No. 1 as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2017 on our consideration of the District's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on 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 District's internal control over financial reporting and compliance.

Montpelier, Vermont
May 1, 2017

*Mudgett, Jarrett &
Hugh-Nixon, P.C.*

DORSET FIRE DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

The Dorset Fire District No. 1 (the District) is incorporated in accordance with Title 20, Chapter 171, of the *Vermont Statutes Annotated*, to manage assets of the Fire Department and Water Division, provide efficient fire protection and insure a pure and adequate water supply, located within the Town of Dorset, Vermont. The District herein sets forth an overview and analysis of its financial operation for the fiscal year ended June 30, 2016, to be reviewed and considered in conjunction with the more detailed statements and notes presented in the ensuing pages of this report.

Financial Highlights:

The financial statements for the District consist of four individual financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; the Statement of Revenues and Expenses - Budget and Actual and the Statement of Cash Flows.

The Statement of Net Position contains information regarding the assets and liabilities of the District, which are classified as either current, if their disposition is expected to occur within one year, or as long-term. The difference between total assets and total liabilities is net position. Total assets of the District were \$1,156,969 and total liabilities were \$57,585, resulting in a net position of \$1,099,384 at year end. This net position consists of \$948,247 in the Fire Department Fund and \$151,137 in the Water Division Fund.

The Statement of Revenues, Expenses and Changes in Net Position shows total operating revenues of \$286,115 and total operating expenses of \$269,672, resulting in an operating income of \$16,443. This operating income is comprised of an operating income of \$22,918 in the Fire Department Fund and an operating loss of \$6,475 in the Water Division Fund. Nonoperating items include interest income and expense, resulting in a change in net position of \$15,055.

The Statement of Revenues and Expenses - Budget and Actual identifies variances in actual activity versus amounts budgeted and approved by the voters of the District. Management has reviewed these variances and finds them to be acceptable. Significant variances in both the Fire Department Fund and Water Division Fund are related to depreciation, which was not budgeted and debt service, where the capital lease principal is not recognized as an expense. Additional variances in the Fire Department Fund consist of employee wages and benefits, which were significantly under budget due to changes in personnel, and the transfer to the sinking fund, which was budgeted as an expense, but is a transfer from one cash account to another, both presented in the Fire Department Fund. Additional variances in the Water Division Fund consist of facility operation and maintenance, which was significantly over budget due to several unexpected repairs during the year. This expense is partly offset by reimbursements from residents, included in charges for services revenue.

The purpose of the Statement of Cash Flows is to identify cash either provided by or used by the activities of the District. The presentation conforms to the requirements of accounting principles generally accepted in the United States of America (U.S. GAAP) and accordingly categorizes cash flows involved with operating, financing and investing activities. This presentation provides an analysis of how the amount of cash held by the District as indicated on the Statement of Net Position changed from the beginning of the year to the end of the year.

The Statement of Cash Flows for the fiscal year ended June 30, 2016 indicates that operating activities resulted in a net increase in cash of \$15,347, which is primarily attributable to operating revenues in excess of expenses.

Cash flows from activities classified as investing activities yielded a total positive cash flow of \$678, and was comprised of interest income.

Cash flows from capital and related financing activities yielded a total negative cash flow of \$35,746 consisting of the current year capital lease obligation payment.

The District's capital assets consist of land, buildings, equipment and vehicles. There was no change in capital assets during the year. The District recognized \$59,271 in depreciation expense for the year.

The District did not obtain any short-term or long-term debt during the year. The District has a capital lease obligation with a balance at yearend of \$34,698.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town Manager, Town of Dorset, P.O. Box 715, Dorset, Vermont 05253-0715.

DORSET FIRE DISTRICT NO. 1
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

	Fire Department <u>Fund</u>	Water Division <u>Fund</u>	Totals Proprietary <u>Funds</u>
ASSETS:			
Current assets -			
Cash and cash equivalents	\$ 252,378	\$ 59,483	\$ 311,861
Accounts receivable	44,278	17,363	61,641
Due from other funds	13,744	-	13,744
Total current assets	<u>310,400</u>	<u>76,846</u>	<u>387,246</u>
Noncurrent assets -			
Capital assets	1,664,941	106,551	1,771,492
less - accumulated depreciation	<u>(984,010)</u>	<u>(17,759)</u>	<u>(1,001,769)</u>
Total noncurrent assets	<u>680,931</u>	<u>88,792</u>	<u>769,723</u>
 Total assets	 <u>991,331</u>	 <u>165,638</u>	 <u>1,156,969</u>
LIABILITIES:			
Current liabilities -			
Accounts payable	8,386	757	9,143
Due to other funds	-	13,744	13,744
Current portion of capital lease	<u>34,698</u>	<u>-</u>	<u>34,698</u>
Total current liabilities	<u>43,084</u>	<u>14,501</u>	<u>57,585</u>
NET POSITION:			
Net investment in capital assets	646,233	88,792	735,025
Unrestricted	<u>302,014</u>	<u>62,345</u>	<u>364,359</u>
 Total net position	 <u>\$ 948,247</u>	 <u>\$ 151,137</u>	 <u>\$ 1,099,384</u>

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

DORSET FIRE DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Fire Department <u>Fund</u>	Water Division <u>Fund</u>	Totals Proprietary <u>Funds</u>
OPERATING REVENUES:			
Charges for services	\$ 218,572	\$ 56,442	\$ 275,014
Miscellaneous	<u>11,101</u>	<u>-</u>	<u>11,101</u>
Total operating revenues	<u>229,673</u>	<u>56,442</u>	<u>286,115</u>
OPERATING EXPENSES:			
Depreciation	55,719	3,552	59,271
Operations	<u>151,036</u>	<u>59,365</u>	<u>210,401</u>
Total operating expenses	<u>206,755</u>	<u>62,917</u>	<u>269,672</u>
Operating income (loss)	<u>22,918</u>	<u>(6,475)</u>	<u>16,443</u>
NONOPERATING REVENUES			
(EXPENSES):			
Interest income	365	313	678
Interest expense	<u>(2,066)</u>	<u>-</u>	<u>(2,066)</u>
Total nonoperating revenues (expenses)	<u>(1,701)</u>	<u>313</u>	<u>(1,388)</u>
CHANGE IN NET POSITION	21,217	(6,162)	15,055
NET POSITION, July 1, 2015	<u>927,030</u>	<u>157,299</u>	<u>1,084,329</u>
NET POSITION, June 30, 2016	\$ <u>948,247</u>	\$ <u>151,137</u>	\$ <u>1,099,384</u>

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

DORSET FIRE DISTRICT NO. 1
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Original and Final <u>Budget</u>	Actual (Budgetary Basis) <u>Basis)</u>	Variance Over (Under)
FIRE DEPARTMENT			
REVENUES:			
Fire Tax	\$ 217,830	\$ 218,572	\$ 742
Interest income	200	365	165
Other income	<u>-</u>	<u>11,101</u>	<u>11,101</u>
Total revenues	<u>218,030</u>	<u>230,038</u>	<u>12,008</u>
EXPENSES:			
Employee wages and benefits	25,000	12,970	(12,030)
Personnel education and training	12,550	9,264	(3,286)
Office administration	12,080	12,550	470
Insurance	15,000	14,269	(731)
Professional fees	5,000	5,420	420
Facility operation and maintenance	15,900	21,553	5,653
Equipment operation and maintenance	29,500	33,343	3,843
Equipment	42,000	41,667	(333)
Transfer to sinking fund	25,000	-	(25,000)
Depreciation	-	55,719	55,719
Debt service	<u>36,000</u>	<u>2,066</u>	<u>(33,934)</u>
Total expenses	<u>218,030</u>	<u>208,821</u>	<u>(9,209)</u>
NET INCOME (LOSS)	\$ <u>-</u>	\$ <u>21,217</u>	\$ <u>21,217</u>
WATER DIVISION			
REVENUES:			
Charges for services	\$ 51,150	\$ 56,442	\$ 5,292
Interest income	<u>75</u>	<u>313</u>	<u>238</u>
Total revenues	<u>51,225</u>	<u>56,755</u>	<u>5,530</u>
EXPENSES:			
System operator	8,400	8,400	-
Office administration	6,650	5,200	(1,450)
Insurance	4,500	2,860	(1,640)
Professional fees	500	-	(500)
Facility operation and maintenance	25,550	42,811	17,261
Depreciation	-	3,552	3,552
Miscellaneous	<u>5,625</u>	<u>94</u>	<u>(5,531)</u>
Total expenses	<u>51,225</u>	<u>62,917</u>	<u>11,692</u>
NET INCOME (LOSS)	\$ <u>-</u>	\$ <u>(6,162)</u>	\$ <u>(6,162)</u>

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

DORSET FIRE DISTRICT NO. 1
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

(Page 1 of 2)

	<u>Fire Department Fund</u>	<u>Water Division Fund</u>	<u>Totals Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 212,691	\$ 52,859	\$ 265,550
Cash payments for goods and services	<u>(153,666)</u>	<u>(61,469)</u>	<u>(215,135)</u>
Net cash provided (used) by operating activities	<u>59,025</u>	<u>(8,610)</u>	<u>50,415</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on capital lease	(33,680)	-	(33,680)
Interest paid on capital lease	<u>(2,066)</u>	<u>-</u>	<u>(2,066)</u>
Net cash provided (used) by capital and related financing activities	<u>(35,746)</u>	<u>-</u>	<u>(35,746)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest	<u>365</u>	<u>313</u>	<u>678</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,644	(8,297)	15,347
CASH AND CASH EQUIVALENTS, July 1, 2015	<u>228,734</u>	<u>67,780</u>	<u>296,514</u>
CASH AND CASH EQUIVALENTS, June 30, 2016	\$ <u>252,378</u>	\$ <u>59,483</u>	\$ <u>311,861</u>

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

DORSET FIRE DISTRICT NO. 1
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

(Page 2 of 2)

	<u>Fire Department Fund</u>	<u>Water Division Fund</u>	<u>Totals Proprietary Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 22,918	\$ (6,475)	\$ 16,443
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -			
Depreciation	55,719	3,552	59,271
Change in the following assets/liabilities:			
Accounts receivable	(16,982)	(3,583)	(20,565)
Accounts payable	<u>(2,630)</u>	<u>(2,104)</u>	<u>(4,734)</u>
Net cash provided (used) by operating activities	\$ <u>59,025</u>	\$ <u>(8,610)</u>	\$ <u>50,415</u>

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

DORSET FIRE DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. Summary of significant accounting policies:

The Dorset Fire District No. 1 (the District) is incorporated in accordance with Title 20, Chapter 171, of the *Vermont Statutes Annotated*, to manage assets of the Fire Department and Water Division, provide efficient fire protection and insure a pure and adequate water supply, located within the Town of Dorset, Vermont.

- A. Reporting entity - The District is a primary unit of government under reporting criteria established by the Governmental Accounting Standards Board (GASB). Those criteria include a separately elected governing body, separate legal standing, and fiscal independence from other state and local governmental entities. Based on these criteria, there are no other entities which are component units of the District.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing *Governmental Accounting and Financial Reporting Standards* which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes U.S. GAAP for governmental units.

- B. Basis of presentation - The District operates as a special purpose entity with only business-type activities and therefore presents the financial statements required for enterprise funds which governmental accounting principles define as suitable for operations that are financed and operated in a manner similar to private business enterprises. The accounts of the District are maintained in accordance with the principles of fund accounting. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Enterprise funds are intended to be financed primarily through proceeds from their operations. The District's enterprise funds are classified as proprietary funds.

The District reports the following major proprietary funds:

Fire Department Fund - The Fire Department Fund is used to account for the District's fire protection operations.

Water Division Fund - The Water Division Fund is used to account for the District's water supply operations.

- C. Measurement focus and basis of accounting - The District uses the economic resources measurement focus and accrual basis of accounting, whereby revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fire taxes are recorded as revenue in the year for which taxes have been levied. Water fees are recorded as revenue in the year for which they are billed. Miscellaneous revenues are recorded as revenues when received because they are generally not measurable prior to collection. Investment earnings are recorded as earned.

DORSET FIRE DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. Summary of significant accounting policies (continued):

- D. Budgets and budgetary accounting - The District approves a budget for the Fire Department and Water Division Funds at an annual District Meeting. The rates are determined by the District Manager and Prudential Committee based on the approved operating budgets. The accounting method used for budget presentation is the same method used for the financial presentation of operations under U.S. GAAP. Formal budgetary integration is employed as a management control during the year. All budgeted amounts lapse at year end.
- E. Fire taxes - Fire taxes attach as an enforceable lien on property owned as of April 1st. Listers of the Town of Dorset establish a grant list of all property and the Prudential Committee sets the tax rate required to raise the tax revenue authorized by the District. Fire taxes for the fiscal year ended June 30, 2016 were payable in one installment due October 1, 2015.
- F. Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- G. Risk management - The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; environmental liability; and natural disasters. The District maintains coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. There were no settlements in excess of the insurance coverage in any of the past three fiscal years.
- H. Cash and cash equivalents - The District considers all cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.
- I. Capital assets - Capital assets include land, buildings vehicles and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The District does not retroactively report infrastructure assets. Donated capital assets are recorded at fair value at the date of acquisition. Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest costs are capitalized on projects during the construction period. Normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Capital assets are depreciated using the straight-line method over the useful lives shown below:

Buildings	30 years
Vehicles	20-25 years
Equipment	20 years

- J. Long-term obligations - The District's proprietary funds report long-term debt and other long-term obligations as liabilities in the Statement of Net Position.

DORSET FIRE DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. Summary of significant accounting policies (continued):

K. New accounting standard - The District has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The statement defines fair value and requires certain assets and liabilities to be reported at their fair value in the financial statements and related note disclosures. The statement describes fair value as a market-based measurement which should be determined by the assumptions or inputs used under current market conditions at the measurement date. The statement establishes a fair value hierarchy which distinguishes between observable inputs which are observable from market data (level 1) or corroborated by observable market data (level 2) and those which are unobservable (level 3).

The impact on these financial statements is to report most liquid assets (i.e., cash or investments) at a level 1 market value and to report any donated assets at their acquisition value upon receipt, which would be a level 2 or level 3 input.

2. Deposits:

Custodial credit risk - deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk. As of June 30, 2016, \$61,490 of the District's bank balance of \$311,490 was uninsured and uncollateralized. Subsequent to year end the District has obtained supplemental coverage for balances exposed to custodial credit risk.

3. Receivables:

Accounts receivable in the Fire Department Fund at year end are \$44,278. Accounts receivable in the Water Division Fund at year end are \$17,363. No amounts are reserved for uncollectible accounts receivable.

4. Capital assets:

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance <u>July 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2016</u>
Capital assets, not depreciated:				
Land	\$ 104,000	\$ -	\$ -	\$ 104,000
Capital assets, depreciated:				
Buildings	415,151	-	-	415,151
Vehicles	1,228,701	-	-	1,228,701
Equipment	<u>23,640</u>	<u>-</u>	<u>-</u>	<u>23,640</u>
Total capital assets, depreciated	<u>1,667,492</u>	<u>-</u>	<u>-</u>	<u>1,667,492</u>

DORSET FIRE DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4. Capital assets (continued):

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2016</u>
Less accumulated depreciation for:				
Buildings	322,807	3,552	-	326,359
Vehicles	617,327	54,537	-	671,864
Equipment	<u>2,364</u>	<u>1,182</u>	<u>-</u>	<u>3,546</u>
Total accumulated depreciation	<u>942,498</u>	<u>59,271</u>	<u>-</u>	<u>1,001,769</u>
Total capital assets, depreciated, net	<u>724,994</u>	<u>(59,271)</u>	<u>-</u>	<u>665,723</u>
Capital assets, net	\$ <u>828,994</u>	\$ <u>(59,271)</u>	\$ <u>-</u>	\$ <u>769,723</u>

Depreciation expense of \$59,271 in the proprietary funds was allocated to expenses of the Fire Department (\$55,719) and the Water Division (\$3,552) funds based on capital assets reported in those funds.

5. Interfund receivable and payable balances:

As of June 30, 2016, the amount due to the Fire Department Fund from the Water Division Fund was \$13,744.

6. Capital Lease:

The District has entered into a lease agreement as lessee for financing the acquisition of a fire truck. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, the cost and depreciation of this asset is included with other capital assets of the District. The cost of the asset acquired by the capital lease is the present value of the future lease payments. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 are as follows:

Year ending June 30,	
2017	\$ 35,746
Less: amount representing interest	<u>1,048</u>
Present value of minimum lease payments	\$ <u>34,698</u>

**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***

The Prudential Committee
Dorset Fire District No. 1

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 financial statements of the Dorset Fire District No. 1 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-001 through 2016-004, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

District's Responses to Findings

Management's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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 report is not suitable for any other purpose.

Montpelier, Vermont
May 1, 2017

*Mudgett, Jernott &
Boyer-Wisnir, P.C.*

**DORSET FIRE DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

2016-001 Financial reporting:

The District relies on its auditors to prepare the year-end financial statements. Auditing standards state that management is responsible for the financial reporting function, including the general ledger accounting that is the basis for the annual financial statements. This responsibility includes developing and maintaining an internal control structure which addresses all aspects of the accounting and financial reporting function.

Management maintains an automated system that operates on a cash basis, and maintains a separate manual system to track receivables. There is no general ledger system that maintains a complete trial balance for the District's operations.

We recommend that management implement the use of a general ledger system to encompass all of the transaction cycles of the District to ensure proper and complete financial reporting. We also recommend that management adopt such changes as deemed necessary to ensure that accounting and financial reporting records are maintained in an accurate and timely manner.

Management's response - During FY17 the District has entered into an interlocal agreement with the Town of Dorset to handle the finance operations for the District. This agreement also included transitioning the general ledger to new accounting software which tracks and reports all financial cycles.

2016-002 Segregation of duties:

We noted that the District Clerk prepares bank deposits and has full access to billing and receivable records. We also noted that the District Clerk has access to bank accounts, prepares disbursements and prepares bank reconciliations. There is no formal review and approval process of the Clerk's duties.

We consider access to the receipts or disbursement cycles and assignment of treasury functions to be incompatible duties. It has been noted that subsequent to year end the management of the District has changed. We recommend that the District evaluate duties assigned to new personnel and implement appropriate mitigating controls, or assign incompatible duties to other personnel.

Management's response - During FY17 the District has entered into an interlocal agreement with the Town of Dorset to handle the finance operations for the District. This arrangement enables separation of financial transactions processed at the Town office from the approval by the Treasurer and Prudential Committee. It also includes new processes over preparation and review of monthly bank reconciliations, and has strengthened internal financial reporting.

2016-003 Capital asset accounting

During our audit, we noted that the District has no system in place to record and track its capital assets and related accumulated depreciation. During our audit, we compiled a list of capital assets for financial reporting to report capital assets, accumulated depreciation and depreciation expense for the current year.

We recommend that the District develop and implement a system to maintain capital asset balances, which would also properly include them in the recommended financial reporting (see finding 2016-001). This system should include a formal capitalization policy, including capitalization thresholds, depreciation methods and useful lives to be used for each type of capital asset. The policy should be communicated to the

**DORSET FIRE DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

2016-003 Capital asset accounting (continued)

appropriate personnel to ensure that all capital asset additions and retirements are identified and reported correctly. The system should ensure that supporting documentation is maintained for each capital asset until the asset's retirement.

Management's response - In FY17 the District has created a system to track information related to capital assets for the District.

2016-004 Capital lease obligation

During our audit, we noted that the District has no system in place to record and track its capital lease obligation liability. During our audit we identified activity to properly report its capital lease obligation liability and related debt service. The presentation of capital lease obligations is required for complete financial reporting.

We recommend that the District develop and implement a system to maintain debt obligations, which would also properly include them in the recommended financial reporting (see finding 2016-001).

Management's response - The District will develop appropriate reporting for capital lease obligations that will be reported as long-term liabilities, tracked in the general ledger and reported in the financial statements.