

Patrick T. Gothie, CPA  
Richard M. Hoyt, Jr., CPA, PFS  
Paul R. Filippetti, CPA  
Terence J. Malaghan, CPA  
K. Elise vonHousen, CPA

**GOThIE, HOYT,  
FILIPPETTI & MALAGHAN, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

Susan K. Jones, CPA  
Jason E. Cote, CPA  
Dipti J. Shah, CPA  
N. Alex Bancroft, CPA  
Fiona J. LaFountain, CPA

**MANAGEMENT LETTER**

To the Operating Committee and Management of  
Dunn's Corners Fire District  
Westerly, Rhode Island

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Dunn's Corners Fire District (the District) as of and for the year ended May 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Dunn's Corners Fire District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

*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 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. We consider the following deficiencies in the Dunn's Corners Fire District's internal control to be a material weakness:

**MATERIAL WEAKNESS**

**MW-10-2 FINANCIAL STATEMENT ADJUSTMENTS AND RELATED  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

The District currently maintains its financial reporting on the accrual basis of accounting. Material adjustments were required to present the District's financial statements in accordance with accounting principles generally accepted in the United States of America. The following accounts required adjustments:

Modified Accrual Basis (Fund Financials)

- 1) Property taxes receivable
- 2) Deferred inflows of resources – revenues - unavailable
- 3) Accrued payroll

## **MATERIAL WEAKNESS (*Continued*)**

### **MW-10-2 FINANCIAL STATEMENT ADJUSTMENTS AND RELATED INTERNAL CONTROL OVER FINANCIAL REPORTING (*Continued*)**

#### Accrual Basis (Government-wide Financials)

- 1) Capital asset additions and annual depreciation
- 2) Accrued expenses (interest)

*Recommendation:* The District should consider either maintaining its internal financial reporting in accordance with accounting principles generally accepted in the United States of America or converting its statements to such a basis for annual external reporting. This may require continuing education for financial personnel and management in order to become more knowledgeable in accounting principles generally accepted in the United States of America as it relates to local governments.

This is a repeat finding from the prior year.

*Management's response:* The District will review this matter with the District bookkeeper to determine the time, effort and training required to implement the recommendation.

## **OTHER MATTERS**

### **Fire Fighter Incentive Program**

During the year ended May 31, 2013, the District paid over \$70,000 to firefighters under its "Firefighter Incentive Program." The intent of the District is to issue Forms 1099 to the firefighters after the end of the calendar year.

*Recommendation:* The Internal Revenue Service has indicated that payments to these firefighters may be classified as employee wages and therefore subject to social security, medicare, and unemployment taxes and reportable on Form W-2. The IRS has further stated that the term "volunteer" and the status of "being on call" have no relevance in this determination. We recommend the District consider placing its firefighters on payroll, subject to all applicable taxes as it does with its other employees.

This is a repeat recommendation from the prior year.

*Management's response:* The Operating Committee does not believe that the volunteer firefighters are employees. Their time of participation is neither assigned nor controlled. They may choose to volunteer their time as it is available. This is a crucial factor in the determination of whether or not someone is an employee.

**OTHER MATTERS (Continued)**

**Dunn's Corners Fire Department – IRS Filings**

From discussions with the District's management, it is our understanding that the Dunn's Corners Fire Department (Fire Department) located within the District currently does not submit any annual filings with the Internal Revenue Service.

*Recommendation:* We recommend that the Fire Department apply for tax exempt status with the Internal Revenue Service using form 1023. If tax exempt status is granted, the Fire Department will be required to file Form 990 annually or Form 990-N annually if its gross receipts are less than \$50,000. If tax exempt status is not granted, the Fire Department may be required to file Form 1120, the income tax return for corporations.

This is a repeat recommendation from the prior year.

*Management's response:* The Operating Committee's response is that it will apply for tax exempt status for the Fire Department with the IRS.

Very truly yours,

*Gothic, Hoyt, Filippetti & Malachuk, LLC*

December 4, 2013