

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

**COTUIT FIRE DISTRICT
COTUIT, MASSACHUSETTS**

Management Letter
Year Ended June 30, 2022



COTUIT FIRE DISTRICT
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2022

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ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

TRANSMITTAL LETTER

To Honorable Members of the Prudential Committee
Cotuit Fire District
Cotuit, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cotuit Fire District (the District) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Prudential Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
February 14, 2023

INFORMATIONAL ITEMS

Long-term obligations (annual update)

Recent accounting standards have brought to light more than ever those hidden liabilities that are true long-term obligations of the District.

More specifically, OPEB and Pension liabilities are now required under GASBs 67, 68, 74 and 75 to be recorded in the District's financial statements.

The District has created a trust for its OPEB liability and in that regard has accumulated over 75% of the unfunded liability over a short period of time. Despite challenging investment conditions for the year ended June 30, 2022, this balance has been built up due the string of tremendous annual returns in the prior few years. This asset to liability ratio positions the District at the very top of municipalities in the State with respect to its OPEB funding ratio, as only a handful of communities are in a healthier position. The current net OPEB liability is about \$0.6 million. As a result, we believe the District is managing this liability well and should try to remain on this path.

With respect to its pension funding, the District is a member of the Barnstable County Contributory Retirement System (BCCRS) along with numerous other Districts and towns. BCCRS has accumulated about 75% of the unfunded liability which places the County above the average range, regarding funding ratios within the State and clearly trending in the proper direction.

However, in light of Massachusetts General Laws to fully fund this liability no later than 2040 and with a current funding schedule maturing in 2037, the District can expect to see its pension assessment rise rapidly within the next five years.

The District should begin to plan this increase in its long-term financial plans.

Network Security

Ransomware is an insidious type of malware that encrypts, or locks, valuable digital files and demands a ransom to release these files. The most common ransomware attack involves a victim opening an emailed file or clicking an attachment that appears legitimate like an invoice, but actually contains the malicious ransomware code. As these emails often appear to be legitimate, the victim is unknowingly baited into executing the ransomware code.

The frequency of ransomware attacks on U.S. municipalities continues to rise. Especially in smaller entities with limited staffing and resources. In addition, the Covid-19 pandemic has added a new element of risk given that operations are now being completed in a remote manner.

The District should assess its current environment and put in place the processes that will best protect it:

- Consider having an outside security assessment conducted by a specialist.
- Provide periodic training to its employees regarding proper use of email and corresponding clicks to hyperlinks and attachments.
- Introduce simulated internal phishing schemes to determine if there are areas or employees where the District may be vulnerable.
- Assure that all files are backed up offsite.
- Review insurance policies and determine if cyberattack insurance is part of these insurance policies.

Investment Income

Recent aggressive actions by the Federal Open Market Committee to tame inflation have resulted in a spike in borrowing costs. These actions have also had a collateral impact on interest income yields, more specifically, short-term treasury yields which are legal investments for Massachusetts Municipalities, are now exceeding 5% yields. The District recognized this great opportunity and in February has begun allocating excess cash reserves to both rolling certificate of deposits and United States Treasury notes. We encourage the District to continue to do this as these opportunities continue to present themselves.

Water Conservation Measures

Water rates increased on 1/1/2022. This increase only impacts usage over 100,000 gallons. Water is billed 1/1 and 7/1. In general, the 7/1 bills did not see much of an increase because they are for 1/1 – 6/30 usage and not many households will use over 100,000 gallons at this time of the year. However, the 1/1 bills will see a dramatic increase in fiscal year 23 because it will be the first time that these rates will be in effect for the summer season.

The goal of this rate structure is to encourage households to use well water for irrigation purposes and conserve clean drinking water passing through the system. In addition, the District is proposing an amendment to the rate structure for fiscal year 2024 that insures all citizens will have affordable access to clean water. The proposal will consider free water up to 20,000 gallons, with the cost absorbed by those users above 60,000 gallons, the majority of which that higher use is for lawn irrigation.

Below are the comparative rate structures for fiscal 2022 and 2023:

Rates Through 12/31/2021		Rates starting 1/1/2022	
Usage	Rate		Rate
10,001 - 20,000	4.00	10,001 - 20,000	4.00
20,001 - 40,000	5.50	20,001 - 40,000	5.50
40,001 - 60,000	7.15	40,001 - 60,000	7.15
60,001 - 100,000	8.55		8.55
> 100,001	9.70	100,001 - 200,000	20.00
		> 200,000	30.00

OBSERVATIONS

Water-bill collections

Currently, water bills are collected and recorded by the same individual who sends the bills out. This is unlike property tax bills which are collected by the Town of Barnstable on behalf of the District. In addition, the collection of bills is currently a manual process so it can tend to be inefficient. We suggest the District evaluate the merits of a lock-box system to collect bills. This will not only remove the segregation of duties issues, but also promote a much more efficient process of collecting the water bills.