

COTUIT FIRE DISTRICT
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2017

COTUIT FIRE DISTRICT
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Prudential Committee
Cotuit Fire District
Cotuit, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cotuit Fire District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cotuit 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 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 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cotuit Fire District, as of June 30, 2017, and the respective changes in financial position, thereof 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 on pages iii–viii and the Schedule of Funding Progress for the District's Other Postemployment Benefits (OPEB) Plan and Notes (GASB 45), the Schedule of Changes in the District's Net OPEB Liability and Related Ratios (GASB 74), the Schedule of Contributions – Other Postemployment Benefits (GASB 74), the Schedule of Investment Returns – Other Postemployment Benefits (GASB 74), the Schedule of Pension Plan Contributions, and the Budgetary Comparison Schedule – General Fund and related notes on pages 33 through 39 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 June 19, 2018, on our consideration of the Cotuit 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 Cotuit Fire District's internal control over financial reporting and compliance.

Lynch Marini & Associates Inc

Norwell, Massachusetts
June 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

COTUIT FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2017

As management of the Cotuit Fire District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

Financial Highlights:

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$2.1 million (net position). Unrestricted net position was in a deficit balance of \$2.4 million mainly due to the aggregate pension and other postemployment benefits (OPEB) liabilities of the District of approximately \$4.7 million.
- The total cost of all District services for fiscal year 2017 was \$4.1 million.
- As of the end of the current fiscal year, unassigned fund balance for the general fund was \$668,000, or approximately 16% of general fund expenditures.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. Required supplementary information as required by the Government Accounting Standards Board (GASB), are presented following the financial statements and related notes to provide additional analysis.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets plus deferred outflows of resources less liabilities and deferred inflows of resources with the difference reported as net position. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The reader should consider non-financial factors, such as the condition of the District's infrastructure and changes to the property tax base, in order to assess the overall health of the District.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

COTUIT FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2017

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include prudential operations, fire operations, water operations, and interest on long-term debt. The District has no business-type activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital projects fund are reported as major funds. The remaining funds are combined into aggregate funds in this presentation. Individual fund data for each of these non-major governmental funds is available from the District Treasurer's office.

The basic governmental fund financial statements can be found in the accompanying pages of this report.

Fiduciary funds: *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's programs.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements described above.

COTUIT FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2017

Required supplementary information: Cotuit Fire District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund as required supplementary information to demonstrate compliance with this budget. Additionally, schedules of pension plan contributions, the schedule of funding progress for the District's Pension Benefit Plan and Other Postemployment Benefit (OPEB) Plan and related notes are presented following the basic financial statements and notes as required by *Government Accounting Standards*.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Cotuit Fire District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2.1 million at the close of the most recent fiscal year as demonstrated in the following table.

	June 30, 2017	June 30, 2016
	Governmental	Governmental
	Activities	Activities
Current assets	\$ 2,276,909	\$ 3,389,598
Capital assets	8,094,015	6,783,354
Total assets	10,370,924	10,172,952
Deferred outflows of resources	446,400	205,893
Total assets and deferred outflows of resources	\$ 10,817,324	\$ 10,378,845
Current liabilities	\$ 616,808	\$ 3,113,708
Long-term liabilities	7,909,175	5,642,226
Total liabilities	8,525,983	8,755,934
Deferred inflows of resources	230,918	238,282
Total deferred inflows of resources	230,918	238,282
Net position:		
Net investment in capital assets	4,440,130	3,592,077
Restricted	6,856	6,856
Unrestricted	(2,386,563)	(2,214,304)
Total net position	\$ 2,060,423	\$ 1,384,629

Current assets include cash of \$1.8 million and receivables of \$504,000. Current liabilities include accounts payable and other current liabilities of \$89,000, accrued interest of \$29,000 and notes payable of \$346,000. Long-term liabilities include \$3.1 million in general obligation bonds, the balance of bonds of \$153,000 is classified as current because it is due within the next fiscal year. In addition, other items included as long-term liabilities are \$110,000 for compensated absences, \$1.6 million for other post-employment benefits and \$3.0 million for the net pension liability. All deferred inflows and outflows of resources are associated with net pension liability, with the exception of unamortized bond premiums.

COTUIT FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2017

The largest portion of the District's net position \$4.4 million reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District reported restricted net position of \$6,856 which represents the District's resources that are subject to restrictions on how they may be used.

Unrestricted net position was in a deficit balance of approximately \$2.4 million, mainly due to the net pension and other postemployment benefits liabilities of the District of approximately \$4.7 million.

Governmental activities increased the District's net position by \$675,794 during fiscal year 2017. A summary of revenues and major functional expenditures is presented below. Certain prior year amounts have been restated to correspond to current year presentation.

	2017	(Restated)
	Governmental	2016
	<u>Activities</u>	Governmental
		<u>Activities</u>
Revenues:		
Charges for services	\$ 841,730	\$ 840,329
Operating grants and contributions*	95,416	77,675
Capital grants and contributions	576,911	
General revenues:		
Property taxes	3,184,722	2,921,751
Penalties and interest	26,311	27,997
Investment income	6,752	4,213
Departmental and other	63,141	94,077
Total revenues	<u>4,794,983</u>	<u>3,888,367</u>
Expenses:		
Fire operations	1,845,227	1,831,173
Water operations	793,218	755,131
Prudential	1,400,085	1,234,947
Interest on long-term debt	80,659	66,767
Total expenses	<u>4,119,189</u>	<u>3,888,018</u>
Change in net position	<u>\$ 675,794</u>	<u>\$ 78,054</u>

*OPEB contributions have been reclassified as operating grants and contributions from transfers in the current year. Prior year balances have been restated accordingly.

Key elements of this increase are as follows:

Revenues:

- ◆ Property taxes of \$3.2 million represent approximately 66% of the District's total revenue.

COTUIT FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2017

- ◆ Charges for services make up the second largest revenue representing 18% of the District's revenue. Included in this amount are charges for water usage and ambulance service.
- ◆ Capital grants and contributions make up the third largest revenue representing 12% of the District's revenue. The capital grants and contributions represents \$500,000 from the USDA for the water tower and \$77,000 from MEMA for an emergency generator.

Expenses:

- ◆ Fire operations expenses remained relatively stable from year to year, increasing by only \$14,000 primarily due to increasing maintenance costs.
- ◆ Water operations maintenance and operating costs increased by approximately \$38,000, primarily due to a \$14,000 increase in salaries and wages and 20,000 increase in depreciation expense.
- ◆ Prudential operation expenses increased approximately \$165,000 from 2016. This was primarily due to a \$190,000 increase in pension expense.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. Fund balance for governmental funds is reported in a classification hierarchy which is based upon the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications are non-spendable, restricted, committed, assigned and unassigned fund balance.

In particular, *unassigned fund balance* represents the residual fund balance which has not been restricted, committed, or assigned to a purpose within that fund. The general fund is the only fund which should report a positive unassigned fund balance amount. Any negative unassigned fund balance represents expenditures incurred for specific purposes which exceeded the amounts restricted, committed, or assigned for that purpose.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$1.4 million, an increase of \$1.3 million from the prior year. The governmental funds' combined ending fund balances were reported in the following classifications: restricted fund balance of \$199,000, committed fund balance of \$580,000; assigned fund balance of \$37,000 and unassigned fund balance of \$548,000.

The general fund is the chief operating fund. At the end of the current fiscal year, the general fund (inclusive of stabilization) reported aggregate fund balance of \$1.3 million. Committed fund balance of \$580,000 and assigned fund balance of \$37,000 represent 45% and 3% of total general fund balance, respectively. Unassigned fund balance of \$668,000 represents 52% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures and revenues. General fund unassigned fund balance represents approximately 16% of both total general fund expenditures and revenues, while total general fund balance represents 31% of the same amounts.

COTUIT FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2017

General Fund Budgetary Highlights

The difference between the original expenditure budget of approximately \$4.7 million and the final amended expenditure budget of \$4.5 million can be briefly summarized as follows:

- ◆ Approximately \$160,000 is reduced from the original budget figure for continuing appropriations (warrant articles) and encumbrances into future periods.

Capital Asset and Debt Administration

Capital assets - The District's investment in capital assets for governmental activities as of June 30, 2017 amounts to approximately \$8.1 million, which is net of accumulated depreciation of \$2.7 million. The investment in capital assets includes land, buildings and related improvements, equipment, machinery and vehicles, and infrastructure. In the current year there was roughly \$2.2 million in additions to infrastructure (\$1.1 million which was prior year construction in progress that was placed into service). This addition represents a new water tower. There was also \$797,000 of additions to equipment, machinery and vehicles (232,000 of which was prior year construction in progress that was placed into service), which includes a fire apparatus and an emergency generator.

The table below represents a summary of the District's capital assets, net of accumulated depreciation by category (in thousands):

Capital assets	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Land	\$ 1,538	\$ 1,538
Construction in progress		1,478
Buildings and related improvements	543	584
Equipment, machinery, vehicles	1,098	410
Infrastructure	<u>4,915</u>	<u>2,773</u>
	<u>\$8,094</u>	<u>\$6,783</u>

Long-term debt – At the end of the current fiscal year, the District had total bonded debt outstanding of \$3.3 million. This is compared to \$1.4 million last year. The increase represents the \$2 million USDA loan for the water tower capital project, net of current year principal payments on existing debt.

The District's bond rating from Standard & Poor's Investor's Service is AA+.

Economic Factors and Next Year's Budgets and Rates

- ◆ The District's management is monitoring conditions of the current economic climate and will evaluate its impact throughout the course of the next fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cotuit Fire District, Attn: District Treasurer, P.O. Box 1475, Cotuit, MA 02635.

BASIC FINANCIAL STATEMENTS

COTUIT FIRE DISTRICT

Statement of Net Position

June 30, 2017

	Primary Government Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,773,331
Receivables, net of allowance for uncollectibles	503,578
Noncurrent assets:	
Capital assets, net of accumulated depreciation	8,094,015
Total assets	<u>10,370,924</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Associated with pension plan	446,400
Total deferred outflows of resources	<u>446,400</u>
Total assets and deferred outflows of resources	<u>\$ 10,817,324</u>
<u>LIABILITIES</u>	
Accounts payable and other current liabilities	\$ 89,126
Accrued interest payable	29,050
Notes payable	346,000
Noncurrent liabilities:	
Due within one year	152,632
Due in more than one year	7,909,175
Total liabilities	<u>8,525,983</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unamortized bond premium	12,800
Associated with pension plan	218,118
Total deferred inflows of resources	<u>230,918</u>
<u>NET POSITION</u>	
Net investment in capital assets	4,440,130
Restricted	6,856
Unrestricted	<u>(2,386,563)</u>
Total net position	<u>2,060,423</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 10,817,324</u>

The accompanying notes are an integral part of these financial statements.

COTUIT FIRE DISTRICT
Statement of Activities
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Total Governmental Activities</u>
Primary government					
Governmental activities:					
Fire operations	\$ 1,845,227	\$ 161,708	\$	\$	\$ (1,683,519)
Water operations	793,218	680,022		576,911	463,715
Prudential operations	1,400,085		95,416		(1,304,669)
Interest	80,659				(80,659)
Total governmental activities	<u>\$ 4,119,189</u>	<u>\$ 841,730</u>	<u>\$ 95,416</u>	<u>\$ 576,911</u>	<u>(2,605,132)</u>
General revenues:					
Property taxes, net of allowance for uncollectibles					3,184,722
Penalties and interest					26,311
Interest income					6,752
Miscellaneous					63,141
Total general revenues					<u>3,280,926</u>
Change in net position					675,794
Net position - beginning of year					<u>1,384,629</u>
Net position - end of year					<u>\$ 2,060,423</u>

The accompanying notes are an integral part of these financial statements.

COTUIT FIRE DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Capital Project Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,349,121	\$ 417,354	\$ 6,856	\$ 1,773,331
Receivables	262,670	76,008		338,678
Total assets	<u>\$ 1,611,791</u>	<u>\$ 493,362</u>	<u>\$ 6,856</u>	<u>\$ 2,112,009</u>
<u>LIABILITIES</u>				
Accounts payable and other current liabilities	\$ 89,126	\$	\$	\$ 89,126
Notes payable		346,000		346,000
Total liabilities	<u>89,126</u>	<u>346,000</u>		<u>435,126</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred revenue	236,484	76,008		312,492
Total deferred inflows of resources	<u>236,484</u>	<u>76,008</u>		<u>312,492</u>
<u>FUND BALANCES</u>				
Restricted		191,992	6,856	198,848
Committed	580,297			580,297
Assigned	37,438			37,438
Unassigned	668,446	(120,638)		547,808
Total fund balances	<u>1,286,181</u>	<u>71,354</u>	<u>6,856</u>	<u>1,364,391</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 1,611,791</u>	<u>\$ 493,362</u>	<u>\$ 6,856</u>	<u>\$ 2,112,009</u>

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances of governmental funds	\$ 1,364,391
Certain receivables are not available soon enough to pay for current period's expenditures and therefore are deferred in the funds.	312,492
Some receivables are not recognized in the modified accrual basis used in funds.	175,000
Capital assets used in governmental activities are not financial resources and not reported in the funds.	8,094,015
Reporting of assets on full accrual basis requires an estimate for uncollectible accounts.	(10,100)
Amounts recorded as deferred outflows associated with net pension liability are not recognized on the modified accrual basis.	446,400
Long-term liabilities are not due and payable in the current period and are not included in funds.	(8,061,807)
Unamortized bond premiums.	(12,800)
Amounts recorded as deferred inflows associated with net pension liability are not recognized on the modified accrual basis.	(218,118)
Reporting of liabilities on full accrual basis requires associated interest to be accrued.	(29,050)
Net position of governmental activities	<u>\$ 2,060,423</u>

The accompanying notes are an integral part of these financial statements.

COTUIT FIRE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
June 30, 2017

	General Fund	Capital Project Funds	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 3,111,951	\$	\$	\$ 3,111,951
Licenses, permits and fees	2,025			2,025
Penalties and interest on taxes	20,448			20,448
Interest income	6,752			6,752
Charges for services	895,403			895,403
Departmental and other	162,057			162,057
Intergovernmental		500,903		500,903
Total revenues	4,198,636	500,903		4,699,539
Expenditures:				
Fire operations	2,110,406			2,110,406
Water operations	640,596	1,224,304		1,864,900
Prudential operations	1,201,075			1,201,075
Debt service	181,809			181,809
Total expenditures	4,133,886	1,224,304		5,358,190
Revenues over/(under) expenditures	64,750	(723,401)		(658,651)
Other financing sources (uses):				
Bond proceeds		2,000,000		2,000,000
Transfers in from other funds		534,655		534,655
Transfers out to other funds	(534,655)			(534,655)
Total other financing (uses)	(534,655)	2,534,655		2,000,000
Revenues and other financing sources over/(under) expenditures and other financing (uses)	(469,905)	1,811,254		1,341,349
Fund balance, beginning of year	1,756,086	(1,739,900)	6,856	23,042
Fund balance, end of year	\$ 1,286,181	\$ 71,354	\$ 6,856	\$ 1,364,391

The accompanying notes are an integral part of these financial statements.

COTUIT FIRE DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2017

Revenues and other financing sources over (under)	
expenditures and other financing uses - governmental funds	\$ 1,341,349
<p>Governmental funds report capital outlays as expenditures, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the Statement of Activities.</p>	
Capital outlays during the fiscal year	1,557,982
Depreciation recorded for the fiscal year	(247,321)
<p>Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements.</p>	
Net change in deferred revenue	147,244
Net change in allowance for uncollectible accounts	2,200
Net change in utility receivables not yet billed	(54,000)
<p>Certain deferred outflows of resources are reported on the government-wide financial statements to be amortized over future periods, and accordingly are not recognized in the fund basis financial statements.</p>	
Changes of deferred outflows associated with pension	240,507
<p>Certain deferred inflows of resources are reported on the government-wide financial statements to be amortized over future periods, and accordingly are not recognized in the fund basis financial statements.</p>	
Changes of deferred inflows associated with pension	6,264
<p>The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net position in the government-wide financial statements. Also, governmental funds report issuance costs, premiums, discounts and similar items as expenditures when paid, whereas these amounts are deferred and amortized on a government-wide basis.</p>	
Issuance of long-term debt	(2,000,000)
Principal payments on long-term debt	105,000
Current year amortization of bond premium	1,100
<p>The fund financial statements record interest on long-term debt when due and revenue from related subsidies when received. The government-wide financial statements report interest on long-term debt and revenue on subsidies when incurred.</p>	
Net change in accrued interest expense	(4,950)
<p>Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Changes in liabilities are as follows:</p>	
Compensated absences	26,200
Other postemployment benefits	(10,659)
Net pension liability	(435,122)
Change in net position of governmental activities	\$ 675,794

The accompanying notes are an integral part of these financial statements.

COTUIT FIRE DISTRICT
Statement of Net Position - Fiduciary Funds
For the Year Ended June 30, 2017

	Other Postemployment Benefits Trust Fund
<u>ASSETS</u>	
Cash and cash equivalents	\$ 56,785
Investments	350,758
	<hr/>
Total assets	\$ 407,543
	<hr/> <hr/>
<u>NET POSITION</u>	
Amounts held in trust for other postemployment benefits	\$ 407,543
	<hr/>
Total net position	\$ 407,543
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

COTUIT FIRE DISTRICT
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2017

	Other Postemployment Benefits Trust Fund
Additions	
Contribution from employer	\$ 191,000
Investment income, net of expense	48,708
Total additions	239,708
 Deductions	
Benefit payments	95,416
Total deduction	95,416
Change in net position	144,292
Net position at beginning of year	263,251
Net position at end of year	\$ 407,543

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

Note 1. Organization and Reporting Entity

A. Organization

The Cotuit Fire District (the District), Cotuit, Massachusetts, was organized by special acts of the Massachusetts General Court: Chapter 328 of the Acts of 1926 and Chapter 244 of the Acts of 1935, to provide public water supply, street lighting, construction, and maintenance of sidewalks, fire-prevention services, and extinguishment of fires to residents of the Village of Cotuit located in the Town of Barnstable, Massachusetts. Emergency medical care, rescue and ambulance services were added at a later date. The District is governed by an elected three member Prudential Committee.

B. Reporting Entity

General

The accompanying financial statements present the Cotuit Fire District (the primary government) and its component units. Component units are included in the reporting entity if their operational and financial relationships with the District are significant. Pursuant to these criteria, the Cotuit Fire District did not identify any component units requiring inclusion in the accompanying financial statements.

Joint Ventures

The District has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The District belongs to cost-sharing groups established pursuant to Massachusetts General Law (MGL) for pension and health insurance benefits. See accompanying notes herein.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The more significant accounting policies established in GAAP and used by the District is discussed below.

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District's fire protection, water operation, and general administrative services are classified as governmental activities. The District does not have any business-type activities.

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

Government-wide Statements

In the government-wide Statement of Net Position, the governmental activities are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts—net investment in capital assets, restricted, and unrestricted. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. Gross expenses (including depreciation) are reduced on the Statement of Activities by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs are normally covered by general revenue.

Certain costs, such as pension benefits, health, life, dental insurances, and debt among others are included as direct costs among the District's prudential operations function.

The government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund balances, revenues and expenditures. The various funds are reported by generic classification within the financial statements.

The following fund types which may be used by the District:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

Major Funds

- General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- Capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction major capital facilities and other capital assets.

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

Other governmental funds consist of other special revenue and permanent funds that are aggregated and presented in the non-major governmental funds column of the governmental funds financial statements. The following describes the general use of these fund types:

- Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- Debt service funds are used to account for and report resources that are restricted, committed, or assigned to the expenditure for principal and interest and the accumulation of funds for the periodic payment of principal and interest on general long-term debt also for financial resources that are being accumulated for principal and interest maturing in future years. Currently, the District does not utilize a debt service fund.
- Permanent funds are used to account for and report financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs. Currently, the District does not have any permanent funds.

Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support District programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds.

- Other Postemployment Benefit (OPEB) Trust fund accounts for resources held in trust for providing future benefits for “other postemployment benefits” in the form of health insurance for eligible retired District employees. Pursuant to Massachusetts General Law, amounts set aside in this trust fund are legally restricted solely for funding this future obligation and are not subject to claims of any general creditor of the District.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Other governmental funds by category are summarized into a single column titled Other Governmental Funds. GASB pronouncements set forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The District may electively add funds, as major funds, which have specific community focus.

Fiduciary funds, if any, are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

B. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and property tax revenues are considered available if they are collected within 60 days after fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

C. Fair Value Measurement

The District measures assets and liabilities at fair value according to the hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or a liability, including assumptions about risk. The following are levels considered:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.
- Level 3 inputs are unobservable for the asset or liability.

D. Cash, Cash Equivalents, and Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form consolidated cash. For the purpose of the financial statements cash and cash equivalents include all demand and savings accounts. The District maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is reflected on the financial statements as "cash and cash equivalents". Massachusetts General Laws and local provisions place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution.

Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or be sold to generate cash. Generally, investments are reported according to the fair value hierarchy established by generally accepted accounting principles. Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool.

Additional cash and investment note disclosures are presented in these Notes.

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

E. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

F. Receivables

In the case of governmental activities, receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible amounts. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The District classifies outstanding personal property taxes three or more years old as uncollectible for financial reporting purposes. The District estimates 3% of outstanding water charges and 10% of ambulance charges to be uncollectible. Outstanding real estate taxes are secured by tax liens, and therefore considered to be fully collectible. Governmental fund accounts receivable are offset by deferred revenue, with the exception of property taxes collected within the first 60 days of the subsequent fiscal year which are considered measurable, available and susceptible to accrual.

G. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their acquisition value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002. The capitalization threshold for the District is \$15,000 per item.

Prior to July 1, 2002, governmental funds’ infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

- Buildings and Improvements 40 years
- Apparatus 7-15 years
- Equipment 10 years
- Vehicles 5 years
- Infrastructure 50 years

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition, and are classified within their respective function.

H. Deferred Outflows and Deferred Inflows

Deferred outflows of resources, as applicable, represent a consumption of assets by the government that is applicable to a future reporting period. These *deferred outflows of resources* have a positive effect on net position and are reported after assets when applicable. Deferred inflows of resources, as applicable, represent the acquisition of assets by the government that is applicable to a future reporting period. These *deferred inflows of resources* have a negative effect on net position and are reported after liabilities when applicable. These amounts are reported in government-wide and fund financial statements based upon the nature of the items.

I. Liabilities

Liabilities represent present obligations to sacrifice resources for which the government has little or no discretion to avoid. The primary focus is on the obligation for the government to perform. The accounting treatment for these obligations depends on whether they are reported in the government-wide or fund financial statements.

Current liabilities are reported in both the fund and government-wide financial statements. Current liabilities represent obligations incurred in the operating cycle for acquisition goods, services, accruals for salaries/wages, vacation accruals, and other obligations due or generally expected to be liquidated within one year from the balance sheet date. Government-wide financial statements also report other current liabilities such as accrued interest, which is reported on a full accrual basis.

Generally, all noncurrent (long term) liabilities are not reported as liabilities in the fund financial statements, but are reported in the government-wide statements. Such obligations consist primarily of such obligations as bonds payable, compensated absences, other postemployment obligation, and net pension liability.

J. Compensated Absences

The District's policies and provisions of bargaining unit contracts regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term obligations in the government-wide statements.

K. Equity Classifications

Government-wide Statements

Equity is classified as net position in the government-wide financial statements. The District first utilizes restricted resources for appropriate activities prior to utilizing unrestricted resources. Net position is displayed in three components:

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

- Net investment in capital assets—This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.
- Restricted —This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. These assets may be restricted by constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted—This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The District's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds were designated for one purpose at the time of their creation. Therefore, any expenditure made from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy.

The general fund and certain other funds may have more than one purpose. Fund balance can be classified in the following components:

- Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts upon which constraints have been placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of District Meeting. Once constraints are imposed in also requires a vote of District Meeting to make any modifications or revocation.
- Assigned fund balance – consist of amounts that are constrained by the District's intent to be used for a specific purpose. Intent may be expressed by (a) the governing body itself, or (b) a body, or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Amounts are generally assigned by the governing board or committee, or department head responsible for respective budgeted appropriations. Amounts may also be assigned by vote of the District Meeting.
- Unassigned fund balance – represents the residual classification for the remaining fund balance. It represents amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes.

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results will differ from those estimates.

M. Total Columns

The total column presented on the government-wide financial statements represents consolidated financial information.

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

Note 3. Stewardship, Compliance and Accountability

A. Property Tax Calendar and Limitations

Real and personal property taxes are based on values assessed each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to lien, interest and penalties. The District has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

B. Budgetary Basis of Accounting

The District must establish its property tax rate each year so that the resulting property tax levy will comply with the provisions Massachusetts General Laws and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Prudential Committee. Original and supplemental appropriations are acted upon by vote of District Meeting. All general fund functions are budgeted. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). A comparison of the General fund's budget to actual amounts on a "budgetary basis" is provided as required supplementary information to provide a meaningful comparison with the budget.

C. Fund Equities

Operations of the various District funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The District classifies fund equity in the fund financial statements as either nonspendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2017, the classification of the District's fund balances can be detailed as follows:

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

	General Fund	Capital Projects Funds	Other Governmental Funds	Total
Restricted:				
Prudential	\$	\$	\$ 1,023	\$ 1,023
Water		191,992		191,992
Fire			5,833	5,833
subtotal		191,992	6,856	198,848
Committed:				
Prudential	80,965			80,965
Water	120,132			120,132
Fire	55,000			55,000
Other	324,200			324,200
subtotal	580,297			580,297
Assigned:				
Prudential	1,477			1,477
Water	7,544			7,544
Fire	28,417			28,417
Other				
subtotal	37,438			37,438
Unassigned	668,446	(120,638)		547,808
Total	\$ 1,286,181	\$ 71,354	\$ 6,856	\$ 1,364,391

The District's stabilization fund is reported with the general fund since the fund is designed to maintain funds set aside by District meeting votes, and is not funded by a specific revenue source. In accordance with Massachusetts General Law Chapter 40, Section 5B, for the purpose of creating one or more stabilization funds, districts may appropriate an unlimited amount in any one fiscal year. At annual or special district meeting the District with majority vote may create a stabilization fund, specify or change the purpose of any stabilization fund, and appropriate into or out of any such fund. The District's stabilization fund balance at year end is \$93,741, reported as unassigned fund balance of the general fund. For fiscal year 2017, \$25,000 was allocated and transferred out of the general fund to the stabilization fund.

The District reports deficit fund balances at June 30, 2017 as follows:

Capital project fund – Roads	\$ (70,000)
Capital project fund – Main St	(50,638)
	<u>\$ (120,638)</u>

These deficits will be funded through long-term borrowing.

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

D. Restricted Net Position

Restricted net position on the government-wide statement consist of the following:

Special revenue funds	\$ 6,856
Total restricted net position	<u>\$ 6,856</u>

Note 4. Cash, Cash Equivalents, and Investments

Massachusetts General Laws, Chapter 44, Sections 54 and 55, place certain limitations on cash deposits and investments available to the District. OPEB funds are maintained pursuant to MGL Chapter 203C. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The District may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The District may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The District may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

The District maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a formal deposit policy for custodial risk. At June 30, 2017, the District maintained cash deposits of \$2,031,223. The carrying amount of cash is \$1,830,116. The difference between cash deposits and the carrying amount of cash are considered outstanding checks. Cash deposits were covered by depository insurance.

The investment balance at June 30, 2017 is \$350,758. The investment is in the Plymouth County Other Postemployment Benefits (OPEB) Trust Program, which consists of a blended index or mutual funds. See also OPEB note.

The District does not have an formal depository and investment policies which address the following risks:

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District does not have an investment policy covering custodial credit risk.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to changes in market interest rates.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk.

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment.

Note 5. Receivables

The District reports the aggregate amount of receivables in the accompanying Statement of Net Position and Balance Sheet.

The District includes the following receivables for individual major and other governmental funds in the aggregate, including applicable allowances for uncollectible amounts and amounts:

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>
Real estate and personal property taxes	\$ 123,287	\$	\$ 123,287
Tax titles and liens	49,191		49,191
Water rates and liens	37,228		37,228
Ambulance	37,070	(3,700)	33,370
Intergovernmental	76,008		76,008
Other receivables	15,894		15,894
Subtotal on governmental funds basis	338,678	(3,700)	334,978
Accrued/unbilled water receivables	175,000	(6,400)	168,600
Total governmental activities	<u>\$ 513,678</u>	<u>(10,100)</u>	<u>503,578</u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Balance 7/1/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2017</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,537,500	\$	\$	\$ 1,537,500
Construction in progress	1,478,458		(1,478,458)	
Sub-total	3,015,958		(1,478,458)	1,537,500
Capital assets being depreciated:				
Buildings and related improvements	1,310,164			1,310,164
Equipment, machinery & vehicles	1,628,627	797,319	(195,000)	2,230,946
Infrastructure	3,512,865	2,239,121		5,751,986
Sub-total	6,451,656	3,036,440	(195,000)	9,293,096
Total	9,467,614	3,036,440	(1,673,458)	10,830,596

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
<u>Governmental Activities: (continued)</u>				
Less accumulated depreciation:				
Buildings and related improvements	\$ 725,780	\$ 40,980	\$	\$ 766,760
Equipment, machinery & vehicles	1,218,214	109,136	(195,000)	1,132,350
Infrastructure	740,266	97,205		837,471
Sub-total	<u>2,684,260</u>	<u>247,321</u>	<u>(195,000)</u>	<u>2,736,581</u>
Governmental capital assets, net	<u>\$ 6,783,354</u>	<u>\$ 2,789,119</u>	<u>\$ (1,478,458)</u>	<u>\$ 8,094,015</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Fire operations	\$ 150,900
Water operations	<u>96,421</u>
Total depreciation expense - governmental activities	<u>\$ 247,321</u>

In the current year there was roughly \$2.2 million in additions to infrastructure (\$1.1 million which was prior year construction in progress that was placed into service). This addition represents a new water tower. There was also \$797,000 of additions to equipment, machinery and vehicles (232,000 of which was prior year construction in progress that was placed into service), which includes a fire apparatus and an emergency generator.

Note 7. Deferred outflows of resources and deferred inflows of resources

The following tables summarize the District's deferred outflows of resources and deferred inflows of resources as of June 30, 2017.

	Balance 6/30/2017
<u>Governmental activities:</u>	
Deferred outflows of resources:	
Net difference between projected and actual pension earnings	\$ 171,295
Change of assumptions	178,761
Change in proportion and proportionate share of total pension liability	<u>96,344</u>
Total deferred outflows of resources	<u>\$ 446,400</u>
Deferred inflows of resources:	
Unamortized bond premium	\$ 12,800
Net difference between projected and actual pension earnings	38,612
Change in proportion and proportionate share of total pension liability	<u>179,506</u>
	<u>\$ 230,918</u>

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

	Balance
<u>Governmental funds:</u>	<u>6/30/2017</u>
Deferred inflows of resources:	
Deferred Revenue	\$ <u>312,492</u>

Note 8. Interfund Balances and Activity

Interfund transfers, for the fiscal year ended June 30, 2017, consisted of the following:

	General Fund	Capital Projects Fund
Amounts transferred to capital project funds for temporary debt pay down	\$ (473,000)	\$ 473,000
Amounts transferred to capital project funds for emergency generator purchase (MEMA match)	(61,655)	61,655
Totals on governmental fund basis	\$ (534,655)	\$ 534,655

The District transferred \$191,000 from the General Fund to the OPEB trust fund. This amount has been reported as employer contributions and included within prudential expenses, for financial reporting purposes. Additionally, the OPEB trust fund reimbursed \$95,416 to the General Fund for the purpose of paying current year retiree health insurance premiums. This amount has been classified as revenue in the governmental funds and government-wide financial statements.

Note 9. Long-term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2017:

<u>Purpose</u>	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Current Portion
Governmental activities:					
General obligation bonds – water storage tank					
TIC 3.803%, dtd 4/15/2010, due 4/15/2030	\$ 1,405,000	\$	\$ (105,000)	\$ 1,300,000	\$ 105,000
USDA water storage tank bond 2.25%, dtd 2/15/2017, due 2/15/2055		2,000,000		2,000,000	52,632
Total long-term bonds	1,405,000	2,000,000	(105,000)	3,300,000	152,632
Net pension liability	2,578,353	678,244	(243,122)	3,013,475	
Other postemployment benefits	1,627,374	248,096	(237,438)	1,638,032	
Compensated absences	136,500		(26,200)	110,300	
Total governmental activities noncurrent liabilities	\$ 5,747,227	\$2,926,340	\$ (611,760)	\$ 8,061,807	\$ 152,632

COTUIT FIRE DISTRICT
Notes to Financial Statements
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Long-term debt

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2017, including interest, are as follows:

Governmental Activities

Year Ending June 30,	Principal	Interest	Total
2018	\$ 152,632	\$ 98,000	\$ 250,632
2019	152,632	91,816	244,448
2020	152,632	85,632	238,264
2021	152,632	81,197	233,829
2022	152,632	76,263	228,895
2023-2027	763,160	304,802	1,067,962
2028-2032	563,160	178,697	741,857
2033-2037	263,160	124,341	387,501
Thereafter	947,360	202,495	1,149,855
Totals	<u>\$ 3,300,000</u>	<u>\$1,243,243</u>	<u>\$ 4,543,243</u>

The District is subject to a dual level general debt limit—the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively of the valuation of taxable property in the District as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth. Additionally, there are many categories of general obligation debt that are exempt from the debt limit but are subject to other limitations.

The District considers issuances of temporary notes as reductions in outstanding debt authorizations. Unissued debt authorizations consist of the following at June 30, 2017:

<u>Purpose</u>	<u>Year(s) Authorized</u>	<u>Amount</u>
Water System Upgrades	2017	\$ 500,000
Total authorized and unissued		<u>\$ 500,000</u>

Lease obligations

A. Operating leases

The District has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. The annual minimum required lease payment for non-cancelable operating leases are immaterial as of June 30, 2017.

B. Capital leases

In accordance with Massachusetts General Laws, the District may enter into lease agreements for a period not to exceed five years and subject to annual appropriation. The District did not have any material capital lease obligations outstanding during the year.

COTUIT FIRE DISTRICT
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Note 10. Temporary Borrowings

Under state law and by authorization of the Prudential Committee, the District is authorized to borrow on a temporary (short-term) basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of tax anticipation notes (TANs),
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs),
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the District and carry maturity dates that are limited by statute. Interest expenditures for temporary borrowings are accounted for in the General Fund. Temporary borrowings are recorded as liabilities in the appropriate fund. Since proceeds from bond anticipation notes are not considered permanent funding sources, deficit fund balances may occur. These deficits, if any, will generally be funded through long-term borrowing.

The following is a summary of changes in the District's temporary debt obligations for the year ended June 30, 2017:

<u>Type/Date/Purpose</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2017</u>
Governmental activities:				
BAN 4/7/2016, Road Repair & Pumping, .70%, due 4/7/2017	\$ 110,000	\$	\$ (110,000)	\$
BAN 4/7/2016, Water System Upgrade, .70%, due 4/7/2017	20,000		(20,000)	
BAN 4/7/2016, Water Mains, .70%, due 4/7/2017	120,000		(120,000)	
BAN 4/7/2016, Purchase High Street, .70%, due 4/7/2017	244,000		(244,000)	
BAN 5/31/2016, Water Tank, .80%, due 11/30/2016	2,100,000		(2,100,000)	
BAN 5/31/2016, Conservation Restriction, .80%, due 11/30/2016	225,000		(225,000)	
BAN 4/7/2017, Road Repair & Pumping, 1.30%, due 4/6/2018		70,000		70,000
BAN 4/7/2017, Water Mains, 1.30%, due 4/6/2018		96,000		96,000
BAN 4/7/2017, Water Tank, 1.30%. due 4/6/2018		180,000		180,000
Total	<u>\$ 2,819,000</u>	<u>\$ 346,000</u>	<u>\$ (2,819,000)</u>	<u>\$ 346,000</u>

COTUIT FIRE DISTRICT
Notes to Financial Statements
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Note 11. Employee Benefits

A. Retirement Benefits

Barnstable County Retirement Association

Plan Description

The Barnstable County Retirement Association (the Plan) is a multiple-employer, cost sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Barnstable County Retirement Board (the Board). Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of January 1, 2016, the Association had 51 participating employers.

The Association is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems. The Association is governed by a five member Board who establish the policies under which the Association operates. The Association issues an audited financial statement for the year ended December 31, 2016, which may be obtained by contacting the Association directly at: Barnstable County Retirement Association, 750 Attucks Lane, Hyannis, MA 02601.

Benefits Provided

The Association provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory public employee retirement systems (PERS). Those requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of credible service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Contributions

There are three classes of membership in the retirement system: Group 1, Group 2 and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have specified as hazardous. Lastly, Group 4 consists of police officers, firefighters and other hazardous positions.

Any individual in Group 1 or Group 2 whose membership began before January 1, 1978 and who maintains an annuity savings fund account, is eligible to receive a superannuation retirement allowance at age 55 or later, regardless of how many years or creditable service. There is no minimum vesting requirements for individuals in Group 4.

Members in Group 1 and 2, hired after January 1, 1978 and prior to April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 20 years of service or upon completion of 10 years of service and upon reaching age 55.

Members in Group 1 and 2, hired on or after April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 10 years of service and upon reaching age 60 (Group 1) or age 55 (Group 2).

COTUIT FIRE DISTRICT
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Governmental employers are required to pay an annual appropriation established by PERAC. The total appropriation includes the amount to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and an additional appropriation in accordance with adopted early retirement incentive programs. The total appropriations are payable July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discount rate of approximately 2%. The pension fund appropriations are allocated among employers based on covered payroll. The District's statutorily required contribution for the year was \$243,122 which was net of the discount of approximately \$4,800.

Pension Liabilities, expenses, and deferred outflows of resources related to pensions

The collective net pension liability of the Association was determined by an actuarial valuation as of January 1, 2016 (measurement date).

At December 31, 2016 based upon valuation date of January 1, 2016:

Total pension liability	\$ 1,644,743,370
Less: plan fiduciary net position	<u>(942,162,719)</u>
Net pension liability	<u>\$ 702,580,651</u>
Plan's fiduciary net position as a percentage of total pension liability	57.28%
Total employer pension expense	\$ 106,554,935
The District's proportionate share of the collective net pension liability	\$ 3,013,475
The District's percentage share of the collective net pension liability	0.429%
District covered payroll	\$ 1,213,528
The District's proportionate share of pension expense recognized	\$ 431,473

The District's proportionate share of collective net deferred outflows and inflows of resources of \$72,612,188 was \$228,282. A breakdown of this amount is reflected in Note 7 on page 20. This net amount is to be recognized in future pension expense in the amount of \$59,016 for the years ending June 30, 2018 and June 30, 2019, \$57,979 for the year ending June 30, 2020, \$5,178 for the year ending June 30, 2021 and \$47,093 for the year ending June 30, 2022.

Actuarial Assumptions

Valuation date:	January 1, 2016
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Appropriations increase at 5.28% per year.
Remaining amortization period:	20 years from July 1, 2016 for 2002 and 2003 Early Retirement Incentives, retirees sheriffs liability and remaining unfunded liability, and 6 years from July 1, 2016 for 2010 Early Retirement Incentive.
Asset valuation method:	A preliminary actuarial value is first determined by taking the actuarial value of assets at the beginning of the year and adding assumed investment earnings (at the assumed actuarial rate of return) and the net new money during the year (contributions less benefit payments and administrative expenses). Twenty percent of the difference between the market value of assets as reported in the Association's Annual Statement and the preliminary actuarial value of assets is added to the preliminary actuarial value. In order for the actuarial value to not differ too significantly from the market value of assets, the financial actuarial value of assets must be within 20% of the market value of assets.

COTUIT FIRE DISTRICT
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Projected salary increases:	Varies by length of service with ultimate rates of 4.25% for Group 1; 4.50% for Group 2 and 4.75% for Group 4.
Cost of living adjustments:	3.0% of first \$16,000 of retirement income as of July 1, 2015, \$17,000 as of July 1, 2016 and \$18,000 as of July 1, 2017.
Rates of retirement:	Varies based upon age for general employees, police and fire employees.
Rates of disability:	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% service connected).
Mortality rates:	
Pre-retirement:	The RP-2000 Employee Mortality Table projected generationally with a Scale BB2D from 2009.
Healthy retiree:	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale BB2D from 2009.
Disabled retiree:	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale BB2D from 2015.
Investment rate of return/ Discount rate:	7.625%, net of pension plan investment expense, including inflation.

The pension plan's policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long term objective of achieving a fully funded status for the benefits provided through the pension plan. The long term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic equity	18.0%	6.44%
International developed markets equity	16.0%	7.40%
International emerging markets equity	6.0%	9.42%
Core fixed income	13.0%	2.02%
High-yield fixed income	10.0%	4.43%
Real estate	10.0%	5.00%
Commodities	4.0%	4.43%
Hedge fund, GTAA, risk parity	13.0%	3.75%
Private equity	<u>10.0%</u>	10.47%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.625%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

COTUIT FIRE DISTRICT
Notes to Financial Statements
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Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the Plan's and the District's proportionate share of the collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate at December 31, 2016:

	<u>1% Decrease to</u> <u>6.625%</u>	<u>Current Discount Rate</u> <u>7.625%</u>	<u>1% Increase to</u> <u>8.625%</u>
BCRA - Total Plan	\$ 894,041,463	\$ 702,580,651	\$ 541,092,898
District's proportionate share	\$ 3,834,678	\$ 3,013,475	\$ 2,320,829

B. Compensated Absences

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated vacation and unused sick leave of approximately \$110,000 is due to certain employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Position.

C. Other Postemployment Benefits (GASB 45)

Plan Description

The District administers a single employer defined benefit plan which provides health, prescription drug, dental and life insurance to substantially all retired employees and their spouses (plan members). Eligibility to retire under the District's plan is based upon meeting one of the following conditions:

- i. At least 10 years of creditable service are eligible at age 55;
- ii. At least 20 years of creditable serve are eligible at any age.

The number of participants as of June 30, 2016, the effective date of the OPEB valuation under GASB Statement No. 45, was 33, which includes 18 retirees, beneficiaries, and dependents and 15 active members. Benefits were paid to retirees, beneficiaries and dependents during the fiscal year ended June 30, 2017 and are paid out of the OPEB Trust Fund. These benefits are provided for and amended under various provisions of Massachusetts General Law, terms of collective bargaining agreements and District ordinances. The Plan's financial statements are reported as a fiduciary fund of the District.

Funding Policy

The contribution rates of retirees are established by collective-bargaining agreements, Massachusetts General Law, and District ordinances. The required contribution is based on pay as you go financing requirements. For fiscal year 2017, the District contributed approximately \$191,000 to health, and life insurance programs on behalf of retirees, beneficiaries and spouses. A difference of approximately \$46,000 exists between expected and actual contributions due to the actuarial valuation date of June 30, 2016. All benefits are provided through a third-party insurance carrier that administers, assumes, and pays all claims. The District contributes at least 75% of the insurance premiums with the remainder funded through retiree contributions.

COTUIT FIRE DISTRICT
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Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined under an actuarial valuation in accordance with the provisions of GASB Statement No. 45.

The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

	Governmental Activities
Annual required contribution (ARC)	\$ 225,390
Interest on net OPEB obligation	103,501
Adjustment to ARC	<u>(80,795)</u>
Annual OPEB cost (expense)	248,096
Contributions made	<u>(237,438)</u>
Increase in net OPEB obligation	10,658
Net OPEB obligation – beginning of year	<u>1,627,374</u>
Net OPEB obligation – end of year	<u><u>\$ 1,638,032</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Governmental activities:			
6/30/2017	\$248,097	95.70%	\$1,638,033
6/30/2016	\$250,500	51.69%	\$1,627,374
6/30/2015	\$250,201	35.93%	\$1,506,369

For the valuation date June 30, 2016, the unfunded actuarial accrued liability was determined using the entry age actuarial cost method using a level percentage of payroll. It should be noted that the valuation dates of June 30, 2015 and 2013 used the alternative measurement method under GASB Statement No. 45 and the actuarial accrued liability was determined using the level dollar thirty year open amortization basis, calculated in accordance with the standards.

Funding Status and Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
Governmental activities:						
6/30/2016	\$263,251	\$2,780,503	\$2,517,252	9.5%	\$1,217,936	206.70%
6/30/2015	\$178,380	\$2,849,067	\$2,670,687	6.3%	\$1,613,339	165.50%
6/30/2013	\$105,435	\$2,825,037	\$2,719,602	3.7%	\$1,575,832	172.60%

COTUIT FIRE DISTRICT
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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past exceptions and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The District has established an OPEB trust fund in accordance with MGL. The Prudential Committee approved the District's OPEB plan to participate in the Plymouth County OPEB Trust Program (PCOT). PCOT is part of its Public Agencies Post-Retirement Healthcare Trust (the Trust) with its own separate investment pool for members. Each participating agency within the Trust is considered a single agent employer for accounting and administration purposes. Participating agencies maintain separate benefit structures and plans, and there is no cost sharing. The Trust, established in 2007, is a public agency agent multiple employer post-retirement health care trust under Section 115 of the Internal Revenue Code. The basic duties of the Trust are receiving and tracking contributions based solely on date received from member public agencies, accumulating and transferring those contributions into investment accruals, and paying benefits under the direction of the Plan administrator. The District's treasurer acts as the District's OPEB Plan Administrator acting on behalf of the District in all matters relating to the District's participation in the Trust. Amounts maintained in the PCOT have been reported as investments for financial statement reporting purposes.

During fiscal year 2017, the District authorized a transfer of \$191,000 to the OPEB Trust Fund and a transfer of \$ 95,416 to the General Fund to fund current year retiree premiums. The balance in the trust at June 30, 2017 is \$407,543.

Actuarial Method and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The alternative method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in estimated accrued liabilities and the estimated value of assets, consistent with the long-term perspective of the calculations.

The following assumptions were utilized in the June 30, 2016 alternative method calculation:

- | | |
|------------------------------|--|
| ▪ Amortization Period: | 30 years open |
| ▪ Asset Valuation Method: | Market value |
| ▪ Investment Rate of Return: | 7.00% |
| ▪ Inflation Rate: | 3.50% |
| ▪ Discount Rate: | 6.36% |
| ▪ Dental: | 2.1% for year 1 then 4.5% thereafter |
| ▪ Healthcare Trend Rates: | Under 65: 10.5%, then 7.0% decreasing by 0.5% to an ultimate rate of 4.5% per year; over 65: 1.9% then 7.0% decreasing by 0.5% to an ultimate rate of 4.5% per year. |

COTUIT FIRE DISTRICT
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D. Other Postemployment Benefits (GASB 74)

As previously indicated, the District administers a single employer defined benefit plan which provides health, dental and life insurance to substantially all retired employees and their spouses (plan members). The Plan has been reported as a fiduciary fund of the District. The following are required disclosures associated with the Plan as of the Plan's reporting date of June 30, 2017, pursuant to GASB Statement No. 74.

Investments

The District has established an OPEB trust fund under the provisions of MGL Chapter 32B, Section 20. The District maintains a separate investment account for this trust which is managed by a third party (PCOT). The District's investment policy in regard to the allocation of invested assets is established PRIT. The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best estimate ranges of expected future rates of return are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation percentage information is unavailable at the reporting date. The arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized below:

<u>Asset Class</u>	Long-Term Expected Real Rate of Return
Domestic equity	6.44%
International developed markets equity	7.40%
International emerging markets equity	9.42%
Core fixed income	2.02%
High-yield fixed income	4.43%
Real estate	5.00%
Commodities	4.43%
Hedge fund, GTAA, Risk parity	3.75%
Private equity	10.47%

Net OPEB liability of the District

The components of the net OPEB liability of the District at June 30, 2017 were as follows:

Total OPEB liability	\$ 2,913,388
Plan fiduciary net position*	<u>350,570</u>
District's net OPEB liability	<u>\$ 2,562,818</u>
 Plan fiduciary net position as a Percentage of total OPEB liability	 12.03%

*Plan fiduciary net position only includes amounts invested with PCOT as of June 30, 2017. The difference between this figure and the amount disclosed on the Statement of Fiduciary Net Position reflects unrecorded changes in market value, which was considered immaterial to the financial statements.

COTUIT FIRE DISTRICT
Notes to Financial Statements
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Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provide at the time of each valuation and the historical pattern of sharing benefit costs between employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Valuation date:	June 30, 2016
Actuarial cost method:	Entry Age Normal – Level Percentage of Payroll
Investment rate of return:	7.25% for assets invested in the State Retiree Benefits Trust fund, 7.0% for all others.
Medical inflation:	Under 65: 10.5%, then 7.0% decreasing by 0.5% to an ultimate rate of 4.5% per year; over 65: 1.9% then 7.0% decreasing by 0.5% to an ultimate rate of 4.5% per year. Dental: 2.1% for 1 year, then 4.5% per year.
Annual compensation increases:	3.5% per annum
Actuarial value of assets:	Market value
Mortality rates:	Pre-retirement – RP-2000 Employee Mortality Table projected generationally with Scale BB2D from 2009. Post-retirement – RP-2000 Annuitant Mortality Table projected generationally with Scale BB2D from 2009. Disabled – RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015.

Discount Rate. The discount rate used to measure the total OPEB liability was 6.36%. The projection of cash flows used to determine the discount rate assumed the District contributions will be made at rates equal to the actuarial determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on OPEB plan investments was applied to all period of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to the changes in the discount rate. The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.36%) or 1-percentage-point higher (7.36%) than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Current Discount Rate</u>	<u>1% Increase in Discount Rate</u>
The District's net OPEB liability as of June 30, 2017	\$ 2,936,436	\$ 2,562,818	\$ 2,253,535

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following represents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (9.5%, then 6.0% decreasing by 0.5% to an ultimate rate of 3.5% per year) or 1-percentage point higher (11.5%, then 8.0% decreasing by 0.5% to an ultimate rate of 5.5% per year) than the current rates:

	<u>1% Decrease in Healthcare Trend</u>	<u>Current Healthcare Trend</u>	<u>1% Increase in Healthcare Trend</u>
The District's net OPEB liability as of June 30, 2017	\$ 2,195,879	\$ 2,562,818	\$ 3,019,464

COTUIT FIRE DISTRICT
Notes to Financial Statements
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Note 12. 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 natural disasters. The District carries commercial insurance for all risk except health insurance.

As discussed in Note 1, the District participates in the Cape Cod Municipal Health Group (Group) a municipal joint-purchase group consisting of 53 governmental units, formed pursuant to Massachusetts General Law Chapter 32B to provide health insurance for active and retired employee benefits. Employees and the District both contribute to the Group based upon a 75% (District) and 25% (Employee) primary care premium formula. The District budgets, annually, in the General Fund for its estimated share of premiums. The District paid premiums of \$177,084 to the Group during fiscal year 2017. Additional information related to the Group may be obtained by contacting the Group directly.

Note 13. Implementation of GASB Pronouncements

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which the District believes are applicable to its financial statements.

Current pronouncements

The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This pronouncement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended and Statement No. 57, *OPEB Measurements by Agent Employer and Agent Multiple-Employer Plans*. The District has implemented this pronouncement.

Future Pronouncements

The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, which is required to be implemented in fiscal year 2018. The pronouncement replaces previously issued guidance and establishes new accounting and financial reporting requirements for governments whose employees are provided other postemployment benefits. The District expects to implement the pronouncement as applicable.

The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2017. The pronouncement issues guidance improving accounting and financial reporting for these agreements which are used by donors to provide resources to two or more beneficiaries, including governments. The District will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #82, *Pension Issues - An Amendment of GASB Statement No. 67, No. 68 and No. 73* which is generally required to be implemented in fiscal year 2018. The pronouncement addresses certain classification, presentation and other issues raised with previous Statements addressing pension obligations. The District expects to implement the pronouncement as applicable.

The GASB issued Statement #83, *Certain Asset Retirement Obligations* which is generally required to be implemented in fiscal year 2019. The pronouncement addresses certain asset retirement obligations which are a legally enforceable liability associated with the retirement of a tangible capital asset. The District will evaluate the implementation of the pronouncement as applicable.

COTUIT FIRE DISTRICT
Notes to Financial Statements
June 30, 2017

The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in fiscal year 2020. The pronouncement establishes criteria for identifying fiduciary activities and its object is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The District will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in fiscal year 2018. This pronouncement addresses practice issues that have been identified during the implementation and application of certain GASB Statements. The District will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #87, *Leases*, which is required to be implemented in fiscal year 2021. This pronouncement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The District will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which is required to be implemented in fiscal year 2019. The objective of this pronouncement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The District will evaluate the implementation of the pronouncement as applicable.

REQUIRED SUPPLEMENTARY INFORMATION

COTUIT FIRE DISTRICT
 Required Supplementary Information
 Schedule of Funding Progress for the District's Other Postemployment Benefits
 (OPEB) Plan and Notes (GASB 45)
 June 30, 2017

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liabilities for benefits. For the valuation date June 30, 2016, the unfunded actuarial accrued liability was determined using the entry age actuarial cost method using a level percentage of payroll. It should be noted that the valuation dates of June 30, 2015 and 2013 used the alternative measurement method under GASB Statement No. 45 and the actuarial accrued liability was determined using the level dollar thirty year open amortization basis, calculated in accordance with the standards. The schedule of funding progress for the District's valuations are as follows:

<u>Schedule of Funding Progress</u>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
Governmental activities:						
6/30/2016	\$263,251	\$2,780,503	\$2,517,252	9.5%	\$1,217,936	206.70%
6/30/2015	\$178,380	\$2,849,067	\$2,670,687	6.3%	1,613,339	165.50%
6/30/2013	\$105,435	\$2,825,037	\$2,719,602	3.7%	1,575,832	172.60%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past exceptions and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Alternative Method and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The alternative method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in estimated accrued liabilities and the estimated value of assets, consistent with the long-term perspective of the calculations.

The following assumptions were utilized in the June 30, 2016 alternative method calculation:

- Amortization Period: 30 years open
- Asset Valuation Method: Market value
- Investment Rate of Return: 7.00%
- Inflation Rate: 3.50%
- Discount Rate: 6.36%
- Dental: 2.1% for year 1 then 4.5% thereafter
- Healthcare Trend Rates: Under 65: 10.5%, then 7.0% decreasing by 0.5% to an ultimate rate of 4.5% per year; over 65: 1.9% then 7.0% decreasing by 0.5% to an ultimate rate of 4.5% per year.

See Independent Auditor's Report.

COTUIT FIRE DISTRICT
Required Supplementary Information
Schedule of Changes in District's Net OPEB
Liability and Related Ratios - (GASB 74)
For the Year Ended June 30, 2017

Total OPEB liability	2017
Service cost	\$ 101,441
Interest	176,971
Changes of assumptions	(83,204)
Benefits payments	(142,022)
Net change in total OPEB liability	53,186
Total OPEB liability - beginning	2,860,202
Total OPEB liability - ending (a)	\$ 2,913,388
Plan fiduciary net position	
Contributions - employer	\$ 237,438
Net investment income	(8,097)
Benefit payments	(142,022)
Net change in fiduciary net position	87,319
Plan fiduciary net position - beginning	263,251
Plan fiduciary net position - ending (b)	350,570
District's net OPEB liability - ending (a-b)	\$ 2,562,818
Plan fiduciary net position as a percentage of the total OPEB liability	12.03%
Covered - employee payroll	1,217,936
District's net OPEB liability as a percentage of covered-employee payroll	210.42%

Notes to Schedule:

The discount rate was increased from 6.12% as of June 30, 2016 to 6.36% as of June 30, 2017.

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years which information is available.

COTUIT FIRE DISTRICT

Required Supplementary Information

Schedule of Contributions - Other Postemployment Benefits and Related Notes (GASB 74)

For the Year Ended June 30, 2017

	<u>2017</u>
Actuarially determined contribution	\$ 225,391
Contributions in relation to the actuarially determined contribution	<u>\$ 237,438</u>
Contribution deficiency (excess)	<u>\$ (12,047)</u>
Covered-employee payroll	\$ 1,217,936
Contributions as a percentage of covered-employee payroll	19.50%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years which information is available.

Notes to Schedule:

Valuation date:	June 30, 2016
<i>Methods and assumptions used to determined contribution rates:</i>	
Actuarial cost method:	Entry Age Normal - Level Percentage of Payroll
Amortization method:	7.25% for assets
Amortization period:	30 years open
Asset valuation method:	Market value
Inflation:	3.5%
Healthcare cost trend rate:	Under 65: 10.5%, then 7.0% decreasing by 0.5% for 6 years to an ultimate rate of 4.5% per year. Over 65: 1.9% then 7.0% decreasing by 0.5% to an ultimate rate of 4.5% per year.
Salary increases:	3.5% per annum
Investment rate of return:	7.25% for assets invested in the State Retiree Benefits Trust Fund, 7.0% for all others.
Retirement age:	Varies based on years of service and age
Mortality:	Pre-retirement - RP-2000 Employee Mortality Table projected generationally with Scale BB2D from 2009. Post-retirement - RP-2000 Annuitant Mortality Table projected generationally with Scale BB2D from 2009. Disabled - RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015.

See Independent Auditor's Report.

COTUIT FIRE DISTRICT
Required Supplementary Information
Schedule of Investment Returns – Other Postemployment Benefits (GASB 74)
For the Year Ended June 30, 2017

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	13.88%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those year which information is available.

COTUIT FIRE DISTRICT
Required Supplementary Information
Schedule of Pension Plan Contributions
For the Year Ended June 30, 2017

Schedule of Pension Plan Contributions - Barnstable County Retirement Association

The Barnstable County Retirement Association (the Plan) is a multiple-employer, cost-sharing contributory defined benefit pension plan covering eligible employees (except for school department employees who serve in a teacher capacity). Based upon the actuarial valuation date of the Plan of January 1, 2016, the following is presented:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 1,644,743,370	\$ 1,502,651,474	\$ 1,426,632,712
Less:			
Plan fiduciary net position	<u>(942,162,719)</u>	<u>(873,002,091)</u>	<u>(862,069,292)</u>
Net pension liability	<u>\$ 702,580,651</u>	<u>\$ 629,649,383</u>	<u>\$ 564,563,420</u>
Plan fiduciary net position as a percentage of total pension liability	57.28%	58.10%	60.43%
District's proportionate/allocated share of collective net pension liability	\$ 3,013,475	\$ 2,578,353	\$ 2,581,551
District's proportionate share of pension expense	\$ 431,473	\$ 225,303	\$ 253,018
District's share of collective net pension liability as a percentage of the total	0.429%	0.409%	0.457%
Actuarially determined contribution	\$ 243,122	\$ 221,138	\$ 238,146
Contributions in relation to actuarial determined contribution	<u>\$ (243,122)</u>	<u>\$ (221,138)</u>	<u>\$ (238,146)</u>
Contribution deficiency(excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 1,213,528	\$ 1,135,531	\$ 1,199,394
District's contributions as a percentage of covered payroll	20.03%	19.47%	19.86%
District's proportionate share of the collective net pension liability as a percentage of covered payroll	248.32%	227.06%	215.24%

*This schedule is intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years which information is available

See Independent Auditor's Report.

COTUIT FIRE DISTRICT
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Property taxes	\$ 3,064,840	\$ 3,064,840	\$ 3,077,681	\$ 12,841
Penalties and interest on taxes	11,500	11,500	20,448	8,948
Charges for services	656,000	656,000	895,403	239,403
Interest income	2,500	2,500	6,028	3,528
Departmental and other	165,000	165,000	68,666	(96,334)
Total revenues	<u>3,899,840</u>	<u>3,899,840</u>	<u>4,068,226</u>	<u>168,386</u>
Expenditures:				
Fire operations	2,296,592	2,268,175	2,110,406	157,769
Water operations	809,555	706,879	702,250	4,629
Prudential operations	1,090,449	1,061,207	1,010,076	51,131
Debt service	490,488	490,488	654,809	(164,321)
Total expenditures	<u>4,687,084</u>	<u>4,526,749</u>	<u>4,477,541</u>	<u>49,208</u>
Revenues over (under) expenditures	(787,244)	(626,909)	(409,315)	217,594
Other financing sources (uses):				
Transfers in from other funds	95,416	95,416	95,416	
Transfers out to other funds	(216,000)	(216,000)	(216,000)	
Total other financing (uses)	<u>(120,584)</u>	<u>(120,584)</u>	<u>(120,584)</u>	
Revenues and other financing sources over (under) expenditures and other financing uses	(907,828)	(747,493)	<u>\$ (529,899)</u>	<u>\$ 217,594</u>
Other budget items:				
Available fund balance	322,000	322,000		
Carryover articles and encumbrances	585,828	425,493		
Total other budget items	<u>907,828</u>	<u>747,493</u>		
Net budget	<u>\$</u>	<u>\$</u>		

COTUIT FIRE DISTRICT
Notes to Required Supplementary Information -
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2017

Note 1. Budgetary Basis of Accounting

The District must establish its property tax rate each year so that the resulting property tax levy will comply with the provisions Massachusetts General Laws and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year’s deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Prudential Committee. Original and supplemental appropriations are acted upon by vote of District Meeting. All General Fund functions are budgeted. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column of the Budgetary Comparison Schedule – General Fund are presented on a “budget basis” to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis is that all budgeted revenues are recorded when cash is received (budget) as opposed to when susceptible to accrual (GAAP). A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
As reported on a budgetary basis	\$ 4,068,226	\$ 4,477,541	\$ (120,584)
Stabilization activity	724		25,000
Effect of revenue on modified accrual basis	34,270		
Pay-down of temporary debt		(473,000)	(473,000)
Emergency generator capital purchase		(61,655)	(61,655)
Transfer to OPEB trust fund		191,000	191,000
Transfer from OPEB trust fund to General Fund	<u>95,416</u>	<u> </u>	<u>(95,416)</u>
As reported on a GAAP basis	<u>\$ 4,198,636</u>	<u>\$ 4,133,886</u>	<u>\$ (534,655)</u>

See Independent Auditor’s Report.

REPORT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



LYNCHMARINI & ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANTS

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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**

To the Honorable Prudential Committee
Cotuit Fire District
Cotuit, Massachusetts

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 governmental activities, each major fund, and the aggregate remaining fund information of the Cotuit Fire District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cotuit Fire District's basic financial statements and have issued our report thereon dated June 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cotuit 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 Cotuit Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cotuit 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 preceding paragraph 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 questioned costs that we considered to be material weaknesses. See findings 2017-001 and 2017-002.

Compliance and Other Matters

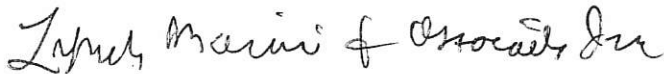
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-003.

Cotuit Fire District's Response to Findings

The Cotuit Fire District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Cotuit Fire District's responses were 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 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.



Norwell, Massachusetts
June 19, 2018

COTUIT FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

FINDINGS – FINANCIAL STATEMENT AUDIT

2017-001 – Segregation of Duties (Material Weakness)

Criteria: Massachusetts' General Laws established the overall framework for the organizational structure in which the District operates; accordingly, there is an inherent lack of segregation of duties. The District's Treasurer either performs or supervises all controls and functions that initiate, record, and/or process all of the District's financial transactions and financial reporting. Additionally, the clerk in the water department has the responsibility for committing and collection of water fees.

Effect: Potential for misstatements due to error or fraud that may not be prevented, detected and/or corrected.

Auditor's Recommendation: We recommend that the District establish internal controls to mitigate the lack of segregation of duties by separating responsibility for those individuals with custodial, record retention and authorization duties.

Management's Response: The District's response is that it is providing administrative services to the District in a cost effective manner and in compliance with the statutory provision of Massachusetts General Law. The District recognizes the weakness and will continue to monitor its internal control policies accordingly, including making changes to the water department cash receipts processing.

2017-002 – Lack of Controls Over Cash Reconciliation Procedures (Material Weakness)

Criteria: Upon commencement of the audit, we noted significant additional work had to be performed as a non-audit service to assist District personnel in reconciling cash balances maintained in the treasury with the accounting ledger. This was due in part of the implementation of a new accounting system during fiscal year 2017. Prior to commencement of the audit, we noted cash variances between the Treasurer's cash book and the accounting ledger of approximately \$410,000. Despite this variance, the District was able to provide a list of reconciling items, some of which were improperly posted to the general ledger. As a result of the non-audit service, the treasurer's cash book and the accounting ledger reconcile as of June 30, 2017.

Effect: Potential for material misstatements of accounting system reports due to an incomplete general ledger.

Auditor's Recommendation: We recommend that the Treasurer's cash book and the accounting ledger are reconciled on a monthly basis to ensure that financial reports used by management are accurate and complete.

Management's Response: The District alerted the Auditors to the problem and requested their assistance in resolving the problem. When the Auditors were contacted all months were reconciled (but without adjustment). Adjustments, largely related to BAN transactions, were not made by the District due to problems related to the new accounting system. In reviewing the monthly expenditure reports, there does not appear to be a material misrepresentation of interim results. Currently, The District is maintaining monthly reconciliations with appropriate adjustments.

COTUIT FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

2017-003 – Budgetary Noncompliance

Criteria: During the audit, we noted that debt service appropriations were over-expended by roughly \$164,000. This was primarily due to actual short term debt principal expenditures of \$473,000 compared to budgeted short term debt principal expenditures of \$157,000. The difference between the unfavorable variance for aggregate debt service expenditures and short term debt principal expenditures was due to favorable variances in long term debt expenditures of \$152,000. Overall, the aggregate debt service expenditures caused an unfavorable budgetary variance which was considered material noncompliance with Massachusetts General Law Chapter 44, Section 31.

Effect: Noncompliance with Massachusetts General Law Chapter 44, Section 31.

Auditor's Recommendation: The District should adhere to authorized budgetary amounts. If necessary, approval should be obtained through District Meeting to authorize expenditures in excess of original budgetary appropriations.

Management's Response: In January 2017, bond counsel determined that the \$325,000 BAN budgeted for renewal had not been initially issued in accordance with State required notice and thus could not be renewed. The BAN notice period was based on the District's by-laws which did not comply with State requirements. Legal counsel determined that the BAN could be paid but not renewed, accordingly the BAN was retired. The District has since amended its by-laws to conform to State requirements.