



May 12, 2011

Board of Commissioners
Dennis Water District
80 Old Bass River Road
South Dennis, MA 02660

Dear Sirs:

We have completed the audit of the financial statements of the Dennis Water District for the year ended June 30, 2010, and submitted our opinion thereon May 12, 2011. This letter is intended to communicate our comments and observations made during our audit which relate to the District's operations.

The comments included in this year's letter have been discussed with the appropriate levels of management.

We thank Sheryl McMahon and her department for their support and assistance during the audit.

This report is intended solely for the information and use of the Board of Water Commissioners, management and others within the organization.

Very truly yours,

Sanders, Walsh & Eaton, LLP

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COMMENTS AND RECOMMENDATIONS

Other Post Employment Benefits

Detailed financial information about public employee non-pension benefits was not required in governmental audited financial statements. To address this issue, the Governmental Accounting Standards Board (GASB) issued two statements in June 2004 providing reporting guidelines for these types of benefits, GASB Statements 43 and 45. These Statements have been phased in since 2005 and is now impacting the District's financial statement for the first time starting with this audit period.

Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits or OPEB. OPEB includes health insurance coverage for retirees and their families, dental insurance and life insurance. It does not include termination benefits such as accrued sick leave and vacation.

Most governments currently fund OPEB on a pay-as-you-go basis, paying an amount annually equal to the benefits distributed or claimed that year. They do not pre-fund obligations as is the case with pension obligations. Even though OPEB represents future obligations of a government, most governments typically report only their cash outlays for OPEB in a given year rather than the cost to the employer of OPEB earned in that year by employees. The two amounts are usually very different.

GASB Statements 43 and 45 have a significant fiscal and policy ramification for American State and local governments. The implementation of these new OPEB reporting standards will likely lead to a vigorous public discussion about non-pension benefits as the costs and long term liabilities of these benefits are made publicly available for the first time.

Included in the Districts financial statements is a charge to its income measurement and accrued liability of \$323,593 as measured and reported according to the New GASB requirements. The details of the reporting requirement and calculation of the \$323,593 are described in Note H of the financial statements.

It's important to note that the GASB and municipal law do not require the funding of the Districts' \$323,593 OPEB costs.

The rating agencies have stated that they will consider OPEB funding status in their evaluations of government financial condition. It is possible that bond ratings may suffer for those governments with large and/or mounting liabilities and no defined way to pay for these future costs. However, Moody's has stated that the OPEB liability disclosures will not necessarily cause immediate rating adjustments on a broad scale. The extent to which the District's OPEB funded status affects its overall credit rating depends on the District's current rating and a comprehensive review of the District's finances.

Our suggestion is that the District evaluate its position under the new OPEB reporting requirements and develop a plan to manage its liability under the new rules. Selected strategies to evaluate are to fund, not fund, reduce OPEB benefits, create tier benefits or place cap on benefits.

Investments

Massachusetts General Law Chapter 44: Section 55 governs the type of securities and the maturity dates to not exceed one year. During prior audits, we commented on investments maturing over one year to be significant and for the District to revisit its investment policy to reduce the maturities within the one year requirement. We are pleased to report that management has made significant progress by reducing the investments maturities to \$2,950 for the year ended June 30, 2010.

Included in the financial statements are investments that are carried at fair market value. Current GASB standards promulgate the practice of marking historical cost to market value (mark to market).

It is our suggestion that investments, after initial purchase, be marked to market value so management can quantify investment unrealized gains and losses during the interim period.

Financial Internal controls

As part of the audit process, we document our understanding and conduct tests of management's system of financial internal controls. These tests are performed so that we can rely on the assertions made by management. Those assertions are that the financial systems are designed to safeguard District assets and produce financial transactions that are properly accounted and recorded.

We concluded during the audit that the financial systems in place, including the bookkeeping procedures, provided us with a high level of assurance that the District's financial controls are working in accordance with the understanding provided by management.