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SANDERS, WALSH & EATON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

July 10, 2013

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, 2012, and submitted our opinion thereon July 10, 2013. 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 (OPEB)

Included in the Districts financial statements is a $210,474 charge to its income measurement for the unfunded actuarial liability of health care and other post-employment benefits resulting in an accumulated liability of $739,451 covering three fiscal years ending June 30, 2012. The details of the reporting requirement and calculation of both amounts are described in Note G of the financial statements. It's important to note that the GASB and municipal law do not require the funding of the Districts' $739,451 outstanding OPEB liability costs.

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.

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 evaluates its position under the new OPEB reporting requirements and develop a plan which includes accepting the provisions of M.G.L Chapter 32B, 20, authorizing the establishment of a separate fund to be known as OPEB Liability Trust Fund and implement a funding schedule for the fund.

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 less than one year for the year ended June 30, 2012.

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.

Accounting Manual Needed

During our audit, we noted that the Dennis Water District does not have an up-to-date manual of accounting policies and procedures. Such a manual would serve as an aid in training new employees, monitoring the performance of existing employees, and improving internal communications. At a minimum, the manual should include:

- An organizational chart of the Dennis Water District
- Job descriptions, outlining duties and responsibilities
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions
- A chart of accounts with detailed explanation of the items to be included therein
- Any other documents or forms for which uniformity of use is desired

We recommend that Dennis Water District develop a comprehensive accounting policies and procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system.