

DENNIS WATER DISTRICT

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

DENNIS WATER DISTRICT
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For the Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Dennis Water District
Dennis, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Dennis Water District, as of and for the year ended June 30, 2013, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with audit 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dennis Water District as of June 30, 2013, and the changes in financial position and cash flows 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 (located on pages 3 through 7) and budgetary comparison and pension information (located on pages 21 through 24) 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 July 9, 2014, on our consideration of Dennis Water 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 Dennis Water District's internal control over financial reporting and compliance.

Sandberg, Walsh & Eaton, LLP

Osterville, Massachusetts
July 9, 2014

DENNIS WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

As Treasurer of the Dennis Water District, I offer to you, the readers of the Dennis Water District's financial statements, this narrative overview and analysis of the financial activities of the Dennis Water District for the fiscal year ended June 30, 2013.

The District is comprised of 22 production wells, 13 treatment stations and 4 storage tanks. Approximately 1 billion gallons of water are pumped per year of which 90% to 95% is billed to consumers. The District replaces approximately 600 to 800 water meters annually to ensure accuracy in recording the amount of water being used by its customers. The District also maintains approximately 235 miles of water main of various diameters and approximately 1,600 hydrants. Approximately \$50,000 to \$100,000 is expended per year for the replacement of aged 2" main with 6" main and the installation of hydrants for increased fire protection.

In 2012, the District undertook a project to improve the water distribution to the Dennis Port area. Water is delivered to Dennis Port primarily by three water mains that are hung beneath three bridges. The installation of a new underground 12" diameter transmission main is being accomplished in three phases. The first phase was the installation of nearly one mile of main. The second phase was the installation of an additional 4,200 feet. Phase III will be the installation of approximately 1,400 feet to complete the installation. Not only will this additional main provide water to Dennis Port in the event of a loss of the road bridges it is also improving the water flow to the area. The total amount appropriated for this project is \$725,000.

Another significant capital project being undertaken by the District is the installation of a 12" diameter transmission main to improve water flow to Dennis Port. The village of Dennis Port lies in the southeastern most part of town. Three of the four exiting mains are hung under road bridges which cross rivers. These mains are particularly susceptible to severe storm damage, such as a hurricane. The fourth main is just 6" in diameter and if it were the sole distribution of water to Dennis Port it would be inadequate. This new main will enhance the flow of water into Dennis Port and provide a secure underground main of adequate size in the event of a natural disaster.

FINANCIAL HIGHLIGHTS:

- The assets of the District exceeded its liabilities at June 30, 2013, by \$35,446,070. Of this amount, \$4,334,342 (unrestricted net position) may be used to meet the District's obligations to its members and creditors.
- The District's total net position increased \$675,932. This increase is due to revenues exceeding expenses and capital contributions. The Implementation of accounting requirement for Other Post Employment Benefit Cost, as described in Note G, increased the District's cost by \$215,599.
- The District's debt decreased by \$560,866 as scheduled during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Dennis Water District's basic financial statements. The District is a special purpose government engaged in only a business type activity. As such, its financial statements consist of only those required for enterprise funds and notes to the basic financial statements.

DENNIS WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (continued):

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 20 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents as required supplementary information, schedules of revenues and expenditures - budget and actual and pension plan. The required supplementary information can be found on pages 21 through 24 of this report.

GOVERNMENTAL FINANCIAL ANALYSIS:

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. In the case of the District, assets exceed liabilities by \$35,446,070 at June 30, 2013.

The largest portion of the District's net position (90 percent) reflects its investment in capital assets (e.g., land, facilities, equipment and projects in process) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's 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 can not be used to liquidate these liabilities.

Dennis Water District's Net Position

ASSETS

	2013	2012
Current assets	\$ 5,412,215	\$ 5,106,050
Capital assets	39,015,586	39,074,550
Total Assets	44,427,801	44,180,600
Long-term liabilities outstanding	8,861,320	9,294,279
Other liabilities	120,411	116,093
Total Liabilities	8,981,731	9,410,372
Net Position:		
Invested in capital Assets, net of related debt	31,111,728	30,609,826
Unrestricted	4,334,342	4,160,312
Total Net Position	\$ 35,446,070	\$ 34,770,138

DENNIS WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

GOVERNMENTAL FINANCIAL ANALYSIS (continued):

The increase in net position invested in capital assets, net of related debt of \$501,902 occurred because the funding of debt service and new asset acquisitions for the year exceeded depreciation expense. The increase in unrestricted net position of \$174,030 occurred because of an increase in water revenues over expenses.

Dennis Water District's Change in Net Position

Revenues:	2013	2012
Operating:		
Water service revenues	\$ 4,491,378	\$ 4,051,694
Non-Operating Revenues:		
Tank rental fees	245,040	271,733
Investment income	6,699	14,047
Miscellaneous	2,568	6,743
	<u>254,307</u>	<u>292,523</u>
Total Revenue	4,745,685	4,344,217
Expenses:		
Wages and salaries	1,376,851	1,387,118
Payroll taxes and benefits	504,932	521,282
Post employment benefits	215,599	306,678
Utilities	293,763	301,553
Repairs and maintenance	384,040	479,167
Professional services	26,967	26,844
Interest expense	204,217	220,021
Insurance	115,308	84,301
Office expenses	238,361	146,847
Supplies	19,714	25,715
Vehicle expense	71,609	60,546
Printing and postage	31,132	31,068
Wastewater studies expense	-	109,747
Depreciation	587,260	558,815
Total Other Expenses	<u>4,069,753</u>	<u>4,259,702</u>
Increase in Net Position	675,932	84,515
Net Position at Beginning of Year	<u>34,770,138</u>	<u>34,685,623</u>
Net Position at End of Year	<u>\$ 35,446,070</u>	<u>\$ 34,770,138</u>

DENNIS WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

GOVERNMENTAL FINANCIAL ANALYSIS (continued):

The assets of the Dennis Water District exceeded its liabilities at the close of the most recent fiscal year. The Dennis Water District's total net income this current fiscal year was \$675,932.

- Water revenue accounted for 94% of all revenues.
- Investments decreased by \$206,000 during the year.
- The District received \$245,040 for the rental of space for cellular antennas on its water tanks.

BUDGETARY HIGHLIGHTS:

The final budget reflects the voters approval, at the Annual District meeting in April 2012, of a transfer of \$150,000 from "free cash" to the Stabilization Fund. Overall, revenues were approximately 9% more than budget primarily due to an increased water consumption. The accounting requirement to recognize other post employment benefit costs was not a budgeted expense item and is reported as a reconciliation item to the GAAP statements.

CAPITAL ASSETS:

The Dennis Water District investment in capital assets as of June 30, 2013 amounted to \$39,015,586 (net of depreciation). This investment in capital assets includes land, buildings, and capital improvements to all developments without receiving public or private grants during the fiscal periods. The total increase in the District's investment in capital assets was approximately 1%.

The District completed construction of two water treatment facilities for the removal of iron and manganese from the water it provides to citizens. Funding for the \$8,086,792 project was provided through the state's revolving loan fund program as administered by the Massachusetts Water Pollution Abatement Trust at an interest rate of 2%. A \$850,000 capital investment is being funded over a three-fiscal year period to increase the capacity of each plant by adding a treatment vessel and redirecting water from two separate existing wells, one to each plant.

The District remains under contract with the University of Massachusetts School of Marine Science and Technologies for the determination of the Total Maximum Daily Limit for Nitrogen for a number of the town's coastal embayments. in accordance with the Massachusetts Estuaries Project for the eventual determination of the Total Maximum Daily Limit for Nitrogen (TMDL) to enter the Town's coastal embayments. The project baseline studies began in 2007 followed by several years of reduced monitoring sampling. The District awaits the final reports which may still be several years away. The remaining contractual obligation is approximately \$110,000. The Board of Water Commissioners remains committed to ensuring that the remaining TMDL reports are received and made available to the community for their review and input.

DENNIS WATER DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

DEBT ADMINISTRATION:

In March 2011, the Massachusetts Water Pollution Abatement Trust closed \$704,409 of unspent project funds held in escrow by the Trust. This reduced the District's total loan from \$8,600,000 to \$7,895,591. A revised payment schedule for the remainder of the term was issued. See Note E on the financial statements for more detail.

In April 2010, Standard & Poor informed the Dennis Water District that they would be upgrading the bond rating from AA- to AA+. At the same time the Town of Dennis was upgraded from AA to AA+. The bond rating firm attributed the upgrade to the ability of both entities to establish and maintain healthy reserves, capital asset management and investment as well as low debt.

ECONOMIC FACTORS:

Water revenue is highly dependent on weather conditions, particularly during months of June, July and August. The summer of 2012 was slightly above average for temperatures and having received only 75% of the average rain, usage by consumers was greater than estimated. Overall, actual revenues billed were 9% more than estimated. The District pumped approximately 88% of its permitted withdrawal limit of 1.189 billion gallons. Water revenue is estimated based on a five-year average customer demand. The District continues to stay within its permitted annual ground water withdrawal permit issued by the Massachusetts Department of Environmental Protection.

Despite the gravity of the economic recession, management's FY2014 outlook is that the District will be able to meet its operational and debt service obligations as well as continue to maintain capital assets and make improvements to the system without having to increase water rates and charges for at least the next three to four years. Collections remain constant as a percentage of billing with just over \$20,000 committed to the Tax Assessing department as water liens on on the FY 2013 real estate tax bills.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Dennis Water District for those with an interest in the government's finances. Questions concerning any of this information provided in this report or requests for additional information should be addressed to the Treasurer, Dennis Water District, PO Box 2000, Dennis, MA 02638.

Dennis Water District , Treasurer

DENNIS WATER DISTRICT
Statement of Net Position
June 30, 2013

ASSETS

Current Assets:	
Cash - unrestricted	\$ 2,780,841
Cash - stabilization fund	1,086,335
Accounts receivable (net where applicable of allowance for doubtful accounts of \$0)	<u>1,545,039</u>
Total Current Assets	5,412,215
NonCurrent Assets:	
Capital Assets:	
Land	12,537,139
Buildings	1,821,834
Equipment	2,066,053
General infrastructure	<u>35,259,465</u>
Total Capital Assets	51,684,491
Accumulated depreciation	<u>(12,668,905)</u>
Net Capital Assets	<u>39,015,586</u>
Total Assets	<u>44,427,801</u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts payable	23,137
Accrued expenses	97,274
Current portion of long-term bonds and note payable	<u>560,866</u>
Total Current Liabilities	681,277
Noncurrent Liabilities:	
Net other post employment benefit obligations	864,036
Accrued compensated absences	93,426
Long-term bonds and note payable	<u>7,342,992</u>
Total Noncurrent Liabilities	<u>8,300,454</u>
Total Liabilities	<u>8,981,731</u>
Net Position:	
Net investment in capital assets	31,111,728
Unrestricted	<u>4,334,342</u>
Total Net Position	<u>\$ 35,446,070</u>

The accompanying notes are an integral part of these financial statements

DENNIS WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013

Operating Revenues:	
Charges for services	\$ 4,491,378
Total Operating Revenues	<u>4,491,378</u>
Operating Expenses:	
Wages and salaries	1,376,851
Payroll taxes and benefits	504,932
Other post employment benefits	211,865
Employee Insurance Mitigation	3,734
Water system repairs and maintenance	381,264
Utilities	293,763
Supplies	19,714
Contractual services	26,967
Insurance	115,308
Vehicle expense	71,609
Printing and postage	31,132
Inventory	2,776
Office and administrative expense	238,361
Depreciation	587,260
Total Operating Expenses	<u>3,865,536</u>
Income from Operations	625,842
Non-Operating Revenues (expenses):	
Interest expense	(204,217)
Investment income	6,699
Miscellaneous	2,568
Tank rental fees	245,040
Total Non-Operating Revenues	<u>50,090</u>
Increase in net position	675,932
Net Position at Beginning of Year	<u>34,770,138</u>
Net Position at End of Year	<u><u>\$ 35,446,070</u></u>

The accompanying notes are an integral part of these financial statements

DENNIS WATER DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash Flows from Operating Activities:	
Cash received from customers	\$ 4,530,491
Cash payments to suppliers of goods and services	(1,768,952)
Cash payments to employees for services	(1,550,144)
Net Cash Provided by Operating Activities	<u>1,211,395</u>
Cash Flows from Noncapital and Related Financing Activities:	
Rental income	245,040
Miscellaneous	2,568
Net Cash Provided by Noncapital and Related Financing Activities	<u>247,608</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(528,296)
Repayments of long term borrowings	(560,866)
Interest Expense	(212,703)
Net Cash Used by Capital and Related Financing Activities	<u>(1,301,865)</u>
Cash Flows From Investing Activities:	
Proceeds/(funding) from investments	206,000
Investment income	6,699
Net Cash Provided in Investing Activities	<u>212,699</u>
Net Increase in Cash and Cash Equivalents	369,837
Cash and Cash Equivalents, July 1,	<u>3,497,339</u>
Cash and Cash Equivalents, June 30,	<u><u>\$ 3,867,176</u></u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:	
Income from operations	\$ 625,842
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	587,260
Change in assets and liabilities:	
(Increase) /decrease in accounts receivable	(142,328)
Increase/(decrease) in accounts payable	11,838
Increase/(decrease) in accrued expenses	4,198
Increase/(decrease) in net other post employment benefits	124,585
Net Cash Provided by Operating Activities	<u><u>\$ 1,211,395</u></u>
Noncash investing and financing activities	
Change in fair value of investments	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the Dennis Water District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2013.

Reporting Entity

The Dennis Water District (the "District") was incorporated in 1945 as a political subdivision of the Commonwealth of Massachusetts by a special act of the Massachusetts General Court and is governed by an elected board of Commissioners; it is a special purpose government engaged in only a business type activity. The commissioners are elected to staggered three-year terms and the day-to-day operations of the District are managed by a Superintendent and Clerk/Treasurer appointed by the Commissioners. The District provides water service to approximately 13,900 residential and business accounts in the Town of Dennis.

Basis of Accounting and Financial Statement Presentation

The Dennis Water District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The accounting and reporting framework and the more significant accounting principles and practices of the Dennis Water District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2013.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally resulted from providing water and related services to residents and business entities. The principal operating revenues consist of charges for water usage and repair services. Operating expenses include payroll and benefits, power, chemicals, repairs and maintenance, and other operating expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Investments

Marketable securities that are owned by a specific account and that are purchased with a maturity of ninety days or less are also considered to be "cash equivalents" and included in the statement of cash flows. All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Deposits and Investments

For purposes of the Statement of Cash Flows, the District considers all demand deposits, savings deposits, and short-term investments, including amounts with the Massachusetts Municipal Depository Trust to be cash and cash equivalents. State Statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than ninety days from the date of purchase and units in the Massachusetts Municipal Depository Trust.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Stabilization Fund

The commissioners have set aside funds (based on District voters authorization) to the stabilization fund which can be appropriated for any legal purpose such as improving the water system infrastructure.

Compensated Absences

Compensated absences (sick leave buy back) are accrued and amounted to \$93,426 for the year ended June 30, 2013.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

Property, plant and equipment owned by the District are recorded at cost or, if contributed property, at their fair market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest has been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and a useful life of five years or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 - 100 Years
General infrastructure	100 Years
Equipment	5 - 10 Years

Depreciation expense for the years ended June 30, 2013 totaled \$587,260.

Budgetary information

Pursuant to the Massachusetts general Laws, the District adopts a budget for its activities and is approved by the voters at the annual meeting. The Treasurers office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system. The budgetary comparison schedules presented in the accompanying supplementary information presents comparisons of the budget with actual results.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE B - ACCOUNTS RECEIVABLE:

The District provides water and water related services to the residents and businesses of Dennis. The billings for water consumption are made on a bi-annual basis in February and August. Each billing period covers a consumption period of six (6) months; i.e., consumption from July through December is billed in February. Amounts deemed uncollectible are referred to the Town of Dennis Assessor's office for water lien attachment on the property tax bills. Unpaid water liens are transferred to the Town Treasurer by the Tax collector and are recorded as tax title. No allowance is booked due to immaterial amounts. A summary of accounts receivable at June 30, 2013 is as follows:

	2013
Accounts receivable	\$ 1,545,039
Less allowance for uncollectible	-
	<u>\$ 1,545,039</u>

NOTE C - DEPOSITS AND INVESTMENTS:

The Massachusetts General Laws (M.G.L.) place limitations on the nature of deposits and investments that are available to the District. Deposits (including demand and term deposits) in any one financial institution may not exceed certain prescribed levels without collateralization or insurance protection by the financial institution involved. Investments can be made in securities unconditionally guaranteed by the U.S. Government with maturities of less than one year from the date of purchase, or in repurchase agreements having maturities of 90 days or less which are collateralized by such securities. The District also has the authority to purchase units in the Massachusetts Municipal Depository Trust (MMDT), a pooled fund managed for the Commonwealth.

The composition of the District's deposits and investments fluctuates throughout the year depending primarily on the timing of water and sewer revenues, proceeds from borrowings and capital outlay.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be recovered. The District's does not have a policy for custodial risk. As of June 30, 2013, the bank balance of \$3,662,559, \$853,489 was covered by Federal Depository Insurance, \$1,987,244 was covered by Depositors Insurance Fund, \$392,085 was covered by Securities Investors Protection Corporation, \$429,741 was collateralized and \$0 was uninsured and uncollateralized.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE C - DEPOSITS AND INVESTMENTS (continued):

Investment income for the year ended June 30, 2013, was as follows:

	Operating Fund	Stabilization Fund	Total
Interest and dividend income	\$ 3,707	\$ 2,992	\$ 6,699
Net realized gains (losses)	-	-	-
Net unrealized (loss)	-	-	-
	<u>\$ 3,707</u>	<u>\$ 2,992</u>	<u>\$ 6,699</u>

NOTE D - CAPITAL ASSETS:

The District's net investments in fixed assets as of June 30, 2013, consist of the following:

	June 30, 2012	Additions	Removal	June 30, 2013
Land	\$ 12,537,139	\$ -	\$ -	\$ 12,537,139
Buildings	8,108,610	-	-	8,108,610
Equipment	1,135,186	23,002	-	1,158,188
General infrastructure	29,375,260	505,294	-	29,880,554
	<u>51,156,195</u>	<u>528,296</u>	<u>-</u>	<u>51,684,491</u>
Less accumulated depreciation for:				
Buildings	(435,354)	(162,225)		(597,579)
Equipment	(594,116)	(81,543)		(675,659)
General infrastructure	(11,052,175)	(343,492)		(11,395,667)
	<u>(12,081,645)</u>	<u>(587,260)</u>	<u>-</u>	<u>(12,668,905)</u>
Net Investment in Capital Assets	<u>\$ 39,074,550</u>	<u>\$ (58,964)</u>	<u>\$ -</u>	<u>\$ 39,015,586</u>

The District owns approximately 996 acres of undeveloped land in Dennis, Massachusetts. The land is recorded as a component of fund equity at its then historical cost and is available for water supply development, distribution and protection, subject to appropriation, at the water commissioners' discretion.

The District completed the construction of two water treatment facilities at a capitalized cost of \$8,097,950 and became operational in October 2009. The project is being financed in part by the \$8,600,000 loan from the Massachusetts Water Pollution Abatement Trust.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE E - LONG-TERM DEBT:

	<u>June 30, 2012</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>June 30, 2013</u>
Massachusetts Water Pollution Abatement Trust Drinking Water Project loan Program note payable for \$8,600,000; biannual consisting of interest and principal maturing July 15, 2028. Interest at 2% annually. Backed by full faith and credit of the District.	\$ 6,644,724	\$ -	\$ (390,866)	\$ 6,253,858

General obligation bonds maturing in years 2008 through 2022 with true interest cost of 4.19%. Principal payable yearly on July 15 and interest payable semi-annually on July 15th and January 15th; Bonds maturing after July 15, 2018, subject to redemption prior to maturity at the option of District.

1,820,000	-	(170,000)	1,650,000
<u>\$ 8,464,724</u>	<u>\$ -</u>	<u>\$ (560,866)</u>	<u>\$ 7,903,858</u>

Future payments due are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 560,866	\$ 174,252
2015	560,866	150,000
2016	560,866	131,544
2017	560,866	104,244
2018	560,866	90,773
Thereafter	5,099,528	101,990
	<u>\$ 7,903,858</u>	<u>\$ 752,803</u>

NOTE F - PENSION PLAN:

Plan Description

The District contributes to the Barnstable County Retirement Association (the "Association"), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable County Retirement Board. Substantially all employees of the District are members of the Association.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The Association provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension plan. Cost-of-living adjustments granted after 1997 must be authorized by the Barnstable County Retirement Board and are borne by the Association. The Association issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the Association located at 99 Willow Street, Yarmouthport, Massachusetts 02675.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE F - PENSION PLAN (continued):

Funding Policy

Chapter 32 of the MGL governs the contributions of plan members and the District. Plan members are required to contribute to the Association at rates ranging from 5% to 11% of annual covered compensation. The District is required to pay into the Association its share of the association-wide actuarial determined contribution that is apportioned among the employees based on annual current payroll. The District's contributions to the Association for the fiscal year ended June 30, 2013, 2012 and 2011 was \$224,385, \$201,263 and \$205,777 respectively which equaled its required contribution for the fiscal year.

NOTE G - OTHER POST EMPLOYMENT BENEFITS:

Plan Description

The District provides health, dental and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of June 30, 2012, the latest actuarial valuation, is as follows:

Active employees	20
Retired employees, beneficiaries and dependents	<u>13</u>
Total	<u><u>33</u></u>

Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District. The required health and dental insurance (including Medicare Part B) contribution rates of Plan members and the District are 25% and 75%, respectively. The Plan members and the District contribute 25% and 75%, respectively, towards a \$5,000 term life insurance premium. The District currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are included in the premium rate structure which are shared on a 75%/25% basis between the District and the employees/retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in 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 (30) years.

The following table shows the components of the District's annual OPEB cost for the year, the actual amount contributed to the plan, and changes to the District's net OPEB obligations.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE G - OTHER POST EMPLOYMENT BENEFITS (continued):

Annual required contribution	\$ 205,578
Interest on net OPEB obligation	33,275
Adjustment to annual required contribution	<u>(26,988)</u>
Annual OPEB cost	211,865
Contributions made	<u>(87,280)</u>
Increase in net OPEB obligation	124,585
Net OPEB obligation at beginning of year	<u>739,451</u>
Net OPEB obligation at end of year	<u><u>\$ 864,036</u></u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation for fiscal year 2013 was as follows:

Fiscal Year Ended	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2013	\$ 211,865	41.2%	\$ 864,036
June 30, 2012	\$ 306,678	31.3%	\$ 739,451
June 30, 2011	\$ 293,252	29.9%	\$ 528,977

Funded Status and Funding Progress

The funded status of the Plan as of the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
06/30/12	\$ -	\$ 2,805,517	\$ 2,805,517	0.0%	N/A	N/A
06/30/10	\$ -	\$ 5,321,755	\$ 5,321,755	0.0%	\$ 1,366,162	389.5%
06/30/08	\$ -	\$ 5,664,263	\$ 5,664,263	0.0%	N/A	N/A

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 expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE G - OTHER POST EMPLOYMENT BENEFITS (continued):

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 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 actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	June 30, 2012
Actuarial cost method:	Projected unit credit
Amortization method:	Amortization payments increasing at 4.5%
Remaining amortization period:	30 years at July 1, 2011
Interest discount rate:	5.0%
Healthcare/medical cost trend rate:	Health - 10.0% decreasing .75% annually to an ultimate level of 5.0% Dental - 5.0% per year
Projected salary increases:	4.5% annually

NOTE H - DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The District did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District did not have any items that qualify for reporting in this category.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE I - IMPLEMENTATION OF GASB PRONOUNCEMENTS:

The District implemented the following GASB pronouncements during the fiscal year:

Statement #60, Accounting and Financial Reporting for Service Concession Arrangements. The implementation of this Statement did not impact the basic financial statements.

Statement #61, The Financial Reporting Entity: Omnibus. The implementation of this Statement did not impact the basic financial statements.

Statement #63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.

Statement #66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62. The implementation of this Statement did not impact the basic financial statements.

NOTE J - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS:

The GASB has issued the following statements:

Statement #65, Items Previously Reported as Assets and Liabilities, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.

Statement #67, Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.

Statement #68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the District will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.

Statement #69, Government Combinations and Disposals of Government Operations, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.

DENNIS WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE J - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS (continued):

Statement #70 Accounting and Financial Reporting for Nonexchange Financial Guarantees, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

DENNIS WATER DISTRICT
Schedule of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variances Positive (Negative)
Revenues:				
Water revenue	\$ 4,098,054	\$ 4,098,054	\$ 4,491,378	\$ 393,324
Rental income	280,427	280,427	245,040	(35,387)
Investment income	6,000	6,000	6,699	699
Late charges and miscellaneous	-	-	2,568	2,568
	<u>4,384,481</u>	<u>4,384,481</u>	<u>4,745,685</u>	<u>361,204</u>
Expenditures:				
Payroll and fringe benefits,	2,005,369	2,005,369	2,097,382	(92,013)
Maintenance and operation	1,044,278	1,044,278	633,299	410,979
Reserve fund	150,000	150,000	150,000	-
Appropriations				-
Principal on loans	560,866	560,866	560,866	-
Interest on loans	211,738	211,738	204,217	7,521
General expenses	333,739	333,739	335,730	(1,991)
Capital improvements	770,000	770,000	528,296	241,704
	<u>5,075,990</u>	<u>5,075,990</u>	<u>4,509,790</u>	<u>566,200</u>
Net Income (Loss)	(691,509)	(691,509)	235,895	927,404
Other Financing Sources				
Debt proceeds	-	-	-	-
Budgetary Fund Balance, Beginning of Year	<u>33,181,780</u>	<u>33,181,780</u>	<u>29,952,781</u>	<u>(4,124,107)</u>
Budgetary Fund Balance, End of Year	<u>\$ 32,490,271</u>	<u>\$ 32,490,271</u>	<u>\$ 30,188,676</u>	<u>\$ (3,196,703)</u>

See Notes to Schedule of Revenues and Expenditures - Budget and Actual

DENNIS WATER DISTRICT
Notes to Schedule of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2013

NOTE A - BUDGETARY - GAAP RECONCILIATION:

Pursuant to the Massachusetts General Laws, the District adopts an annual budget for all of its activities.

All portions budget of the annual budget are prepared under the direction of the Superintendent and Treasurer. The budget must be approved by voters at the annual meeting.

In fiscal 2013 the original budgets did not change.

The District's annual budget is prepared on a basis other than GAAP. The "actual" results column of the Schedule of Revenues and Expenditures is presented on a "budgetary basis" to provide a meaningful comparison with the budgets.

The following reconciliations summarize the differences between budgetary and GAAP - basis accounting principles for the year ended June 30, 2013.

	Revenues	Expenditures
Per Statement of Revenues, Expenses and Changes in Net Assets	\$ 4,745,685	\$ 4,069,753
Adjustments:		
Eliminate depreciation and amortization	-	(587,260)
Eliminate Net OPEB	-	(211,865)
Add reserve transfers		150,000
Add loan payments	-	560,866
Add capital assets acquired through budget	-	528,296
Per Schedule	<u>\$ 4,745,685</u>	<u>\$ 4,509,790</u>

DENNIS WATER DISTRICT
Required Supplementary Information - Pension Plan
For the Year Ended June 30, 2013

Additional information of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2012
Actuarial cost method:	Entry age normal cost
Amortization method:	Increasing payments 4.0% per year after fiscal year 2015
Remaining amortization period:	26 years from July 1, 2012, for 2002 and 2003 early retirement incentives and remaining unfunded liability
Asset valuation method:	5-year smoothing of investment returns greater (less) than expected

Actuarial Assumptions

Investment rate of return:	7.875%
Projected salary increases:	4.75% -5.25%
Cost of living adjustments:	3% of the first \$12,000 of retirement income

Pension Plan Schedules

The following schedules provide information related to the Association as a whole, for which the District is one participating employer:

Schedules of Funding Progress (Association)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 651,063,981	\$ 1,173,483,848	\$ 522,419,867	55.5%	\$ 239,437,303	218.2%
01/01/10	\$ 554,876,554	\$ 1,030,210,321	\$ 475,333,767	53.9%	\$ 234,374,075	202.8%
01/01/09	\$ 520,089,855	\$ 966,564,614	\$ 446,474,759	53.8%	\$ 249,971,296	178.6%
01/01/07	\$ 517,396,087	\$ 825,863,068	\$ 308,466,981	62.6%	\$ 226,391,633	136.3%
01/01/06	\$ 465,637,984	\$ 765,747,723	\$ 300,109,739	60.8%	\$ 215,474,180	139.3%

DENNIS WATER DISTRICT
Required Supplementary Information - Pension Plan
For the Year Ended June 30, 2013

Schedule of Employer Contributions (Association)

<u>Year Ended December 31</u>	<u>Annually Required Contributions (ARC)</u>	<u>Percentage of ARC Contributed (%)</u>
2013	\$ 46,702,087	100
2012	\$ 43,807,158	100
2011	\$ 43,893,051	100
2010	\$ 39,899,322	100

The following schedule provides information related to the District's portion of the Association's ARC.

DISTRICT SHARE OF ASSOCIATION ARC

<u>Fiscal Year Ended</u>	<u>ARC</u>	<u>Percentage of ARC Contributed (%)</u>	<u>District ARC as a Percentage of Association ARC(%)</u>
2013	\$ 210,575	100	0.5%
2012	\$ 205,173	100	0.5%
2011	\$ 205,777	100	0.5%
2010	\$ 199,900	100	0.5%

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

INDEPENDENT AUDITOR'S REPORT

Dennis Water District
Dennis, 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 Dennis Water District as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated July 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dennis Water 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 Dennis Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Dennis Water 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dennis Water 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Sanderson, Walsh & Eaton, LLP

Osterville, Massachusetts
July 9, 2014