November 22, 2016

To the Board of Water Commissioners
Dennis Water District

We have audited the financial statements of Dennis Water District for the years ended June 30, 2016 and 2015, and have issued our reports thereon dated November 22, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 29, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Dennis Water District are described in Note A to the financial statements. New accounting policies were adopted for the recording of the District's net pension liability in accordance with GASB Statement No. 67 and 68. during 2015. In addition, during 2016, new accounting policies were adopted for the disclosure of the District's fair value measurements of investments in accordance with GASB Statement No. 72 and investment pools in accordance with GASB Statement No. 79. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation.

> Management's estimate of Depreciation is based on useful life of property, plant and equipment. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statements disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatement

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter November 22, 2016

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Dennis Water District for the years ended June 30, 2016 and 2015, we considered the organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters and does not affect our reports dated November 22, 2016 on the financial statements of Dennis Water District

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with company personnel.

This information is intended solely for the use of Board of Directors of Dennis Water District and is not intended to be, and should not be, used by anyone other than these specified parties. In closing, we would like to thank Sheryl McMahon and her staff for their support and assistance during the audit.

Very truly yours,

Sanders, Walsh & Eaton LLP

DENNIS WATER DISTRICT

Comments and Recommendations
June 30, 2016 and 2015

GASB'S New Pension Standards

The District's financial statements include the adoption of the Governmental Accounting Standards Board (GASB) new accounting standards for public pensions and participating employers. These standards, GASB Statements No. 67 and 68, have substantially revised the accounting requirements previously mandated under GASB Statements No.25 and 27.

The new statements have centered around the new hard-line division of accounting for the pension obligation from the funding of that obligation. The significant change that the GASB made is to clearly de-link funding and accounting requirement for governmental plans. Many governmental plans' current funding policies are defined based on the Annual Required Contribution (ARC), as defined under the old statements. However, the new statements no longer define an ARC and instead reference an actuarially determined contribution. This change represents a fundamental shift from funding the obligation to accounting for the obligation. The new GASB statements require a recording of a liability for the District's pension obligations, known as the net pension liability (NPL), to be recognized on your balance sheet. The NPL is simply the shortfall or difference between the total pension liability and the fair market value of the plan assets to support the pension obligation. Note F in the financial statements disclose the new reporting requirements.

As you are aware, the District is one of 50 municipal participants in the multi-employer Barnstable County Retirement System (BCRS). The Segal Consulting group is the actuarial firm engaged by the plan to provide participating members guidance on its share of the NPL and various disclosure requirements that are required for your audited financial statements. The actuarially reported NPL for the BCRS was $629,649,383 and $564,563,421 for 2015 and 2014 respectively. The Districts proportionate share of those NPL's was $2,878,159 and $2,635,327 respectively and are now carried on the Districts balance sheets.

Commencing with the June 30, 2015 audit, the District recorded its initial NPL of $2,615,632 which has accumulated to $2,878,159 as of June 30, 2016 representing the Districts share of the estimated shortfall of the Districts estimated future pension obligations. The emphasis here is estimated shortfall and estimated future pension obligations since the actuarial model valuation is a budgeting tool with respect to financing future uncertain pension obligation based on assumption and estimates that are subject to change. However, the Districts balance sheet carries a significant liability for its share of future estimated pension obligations.

GASB'S New Pension Standards (continued)

As a point of interest, the District's current pension funding (old standards) was 80% and 94% of the new actuarially determined pension expense for the year's ended June 30, 2016 and 2015 respectively. The Districts cash payment ARC or funding obligation under the old statements was $246,851 and $243,107 for the years ended June 30, 2016 and 2015 respectively. The new actuarially determined pension expenses recorded in the Income Statement was $309,850 and $258,289 for the years ended June 30, 2016 and 2015 respectively. It's the initial liability recorded on the balance sheet that has the most significant impact on the financial statements.

The new GASB statements do not establish requirements for how the District should fund its pension obligation nor does the District need to fund more each year. However, how much the District contributes each year to the pension plan is a policy issue.

Our recommendation is to address the pension funding as a policy issue. It's clear that the GASB has moved the industry to disclosure and recording of pension and OPEB (discussed below) liabilities that will have an impact on the rating agencies evaluation of the District's balance sheet. In addition, if corporate and personal income tax rates are reduced in the future, it may put more competitive pressures on the interest rate yields in the municipal bond market to maintain its tax free competitive edge. The point here is that your interest rate environment appears to be positioned to change toward the upside with additional debt on your balance sheet and a potential fiscal policy change in tax rates that would put pressure on the cost of future municipal financing.

Other Post-Employment Benefits (OPEB)

Included in the Districts financial statements is a $237,719 and $227,820 charge to its income measurement for the unfunded actuarial liability of health care and other post-employment benefits resulting in an accumulated liability of $1,269,280 and $1,129,253 for the fiscal years ending June 30, 2016 and 2015 respectively. 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' $1,269,280 outstanding June 30, 2016 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.

Other Post-Employment Benefits (OPEB) (continued)
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.

We are pleased that the District has initiated the process to evaluate 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.

Accounting Manual Needed
As mentioned in the previous 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

Accounting Manual Needed (continued)

We are pleased that the District has initiated the process to 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.

Management's Assessment of Internal Control

Professional Auditing Standards define "internal control" as a process-effected by an entity's board of directors, management, and other personnel-designed to provide reasonable assurances regarding the achievement of objectives in the following categories:

(a) Reliability of financial reporting
(b) Effectiveness and efficiency of operations, and
(c) Compliance with applicable laws and regulation. Internal control over financial reporting to third parties is generally considered to consist of five interrelated elements:

1. **Control environment**. The tone of an organization, which influences the control consciousness of its employees. This environment is what provides a foundation of discipline and structure to other elements of internal control.

2. **Risk assessment.** This is the entity's identification of risks that may affect the integrity of the financial reporting system. This forms the basis for controls that reduce the risk of financial reporting errors.

3. **Control activities.** These are practices, policies, and procedures that reduce the possibility of errors entering in the financial reporting system (preventive controls), or that detect errors that are made (detective controls).

4. **Information and communication.** These are processes aimed at identifying, capturing, and exchanging information, to ensure the availability of complete and reliable information.

5. **Monitoring.** This is the process of testing the quality of internal control over time. This may include an internal audit function, or testing by outside auditors.

Management's Assessment of Internal Control (continued):

In the normal course of the audit process, the auditor is only required to obtain an understanding of the internal control sufficient to plan the audit for the purpose of expressing an opinion on the financial statements. This, however, does not imply that the auditor must perform any type of test or other verification of the effectiveness of the internal control system. As such, we recommend that management report on the effectiveness of the systems of internal controls. Furthermore, the effectiveness of the system should be assessed. Strong and effective internal controls are the responsibility of management and we believe that this practice, conducted on an annual basis, will be of significant benefit in enhancing internal controls.