

DENNIS WATER DISTRICT

Board of Water Commissioners

Minutes of Meeting held

August 23, 2012

A meeting, having been duly posted, was held this date at the Dennis Police Station, 90 Bob Crowell Rd, South Dennis. The meeting was called to order by Paul F. Prue, Chairman at 6:00 PM. Also in attendance were Charles F. Crowell and Peter L. McDowell and the following District official:

Sheryl A McMahon, Clerk & Treasurer

David Larkowski, Superintendent

Public Information & Comment

Mr. Larkowski stated he was contacted by Diane Chamberlain; Chairperson of the Dennis Comprehensive Wastewater Committee, regarding a SMAST Report presentation by Brian Howes is scheduled for September 18, 2012 at 5:00 PM.

Mr. Larkowski advised the Board that the Water District was the recipient of a grant from MIIA for a feasibility study for developing a new digital system for the asbuilts for water mains. The condition of the paper records is poor, the measurements are out of date by reference and retrieving the data is tedious. This grant will allow a feasibility study to determine the best course of action in having this information digitized. The concept of digitizing would preserve the documents and make them easily accessible to staff in the field. Commissioner McDowell noted that catch basins have been put on a GIS system for the Town and wondered if the water mains could be done the same way. Mr. Larkowski said he would look into it as an option but typically, the District has steered away from the GIS system because it provides more information than the District would need. Commissioner McDowell requested that Mr. Larkowski research expanded use of the GIS system.

Review FY 2011 Audit results and discuss Other Post Employment Benefit (OPEB) Unfunded Liability (GASB 45)

Joseph McGee of Sanders, Walsh & Eaton, Certified Public Accountants, was present to discuss the audit results for FY 2011. He stated the audit rendered a "*clean opinion*" and felt the financial statements present a fair representation of the financial condition of the District. The audit reviews the transactions by testing, observing and confirming as well as review and evaluates the internal controls and the overall presentation of the financials. The financial results were very strong. The assets are approximately \$44 million.

Mr. McGee discussed Other Post Employment Benefit OPEB. These are non-pension benefits provided to employees after employment ends that government agencies are now required to disclose on their official financial statements. OPEB includes health insurance coverage for retirees and their dependents. The amounts that appear on the financial statements represent the unfunded liability. Most governments currently fund OPEB on a pay-as-you-go basis and they do not pre-fund obligations as is the case with pension obligations. Mr. McGee recommended that the District begin discussing a strategy on how to meet this future obligation. Chairman Prue asked what would happen if the District just continued with the pay-as-you-go strategy. Mr. McGee said that

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eventually the bond rating agencies would weigh in on how an entity's unfunded obligation appears as a risk factor in rating their outstanding bonds. Mr. McDowell asked if the District participated in the county retirement system. Mr. McGee explained that pension, through Barnstable County, is separately funded. Mr. McDowell asked if all of the municipalities paid into Barnstable County on a pay-as-you-go basis and Dennis Water District pays ahead, if there is an acute financial problem how would that work out for the District? Mr. McGee stated that Barnstable County Retirement is on a funding schedule (a public document) which Dennis Water District is a member. The pension plan offered by Barnstable County is separate from the OPEB issue which is other post employment benefits not including pensions. Ms. McMahon explained that there are two different issues. Approximately 20 years ago, state regulation required pension systems to identify their unfunded liability and begin implementing a funding schedule. Dennis Water District participates because it is a member unit of Barnstable County Retirement. GASB 45 is a new rule for standardizing financial statements of government entities so that their unfunded liabilities for OPEB costs are disclosed on the financial statements. Dennis Water District does not belong to a pool for funding the District's share of its retirees' insurance premiums. It is strictly pay-as-you-go for paying these costs and there are currently no requirements for funding the future costs as it is being accrued by active employees. Mr. McDowell asked if it is being suggested that the District pre-pay for the retirees insurance. Ms. McMahon stated that as in the example of Social Security, employers match their employees' deductions so that the funds are theoretically available when the employee retires and begins to collect. She said that the law recently allows for governmental units to create and fund a special trust account for accumulating money to pay future benefits as it is being earned. The reason is because the accumulated pay-as-you-go in the future will be very weighty on the budget. Chairman Prue identified the unfunded liability of approximately \$5.5 million. Mr. McDowell said he would be concerned if the District began to prepay the liability and others did not. Ms. McMahon stated that there is no pool for paying future retirees insurance benefits. Although the District belongs to the Cape Cod Municipal Health Group, it simply purchases insurance for a group of government agencies; it has nothing to do with funding any unit's future insurance costs. Mr. McDowell asked if Ms. McMahon knew of any other government agencies that were pre-paying. Ms. McMahon responded that she was aware that the Town of Barnstable and the Town of Mashpee have made allocations, with Barnstable at approximately \$700,000. Ms. McMahon did note that significant changes have been made to the insurance plans. The actuarial evaluation is done every two years and these changes will impact the future liability. Chairman Prue asked that a possible funding scenario for the next budget cycle.

Mr. McGee stated that the District has good internal controls and the assets are properly safeguarded. Mr. McDowell asked how the generally accepted accounting standards used in the audit relate to compliance with law. Mr. McGee stated that they are a set of accounting procedures that are used for business, government and non-profits. The procedures outline the process for evaluating the financial statements, verifying underlying documentation, and internal controls. Mr. McDowell asked if the Board requested, in addition to the generally accepted auditing standards, a compliance audit with Massachusetts law, as the only thing we are authorized to do is provide the citizens with potable water for drinking and for fire protection and there is nothing else, how much would it cost? Mr. McGee said that it would be necessary to identify the scope of work and all of the laws that apply to the organization. Without knowing the specific focus, he couldn't put a price on it. Mr. McDowell asked about the law that created the District and our authorization to spend money for that purpose. He wanted to know what it would cost to identify what we are spending

money on as it compares with the law that authorizes us to provide potable water for drinking and fire protection and nothing else. Ms. McMahon noted that Mr. McDowell had asked about the Fiscal Year payroll reports previously and the formatting has been revised. She asked if the request for a compliance audit was relative to the payment for the Mass. Estuary Reports. She said that from her research, to conduct a compliance audit of all the laws under which the District operates would be exorbitantly expensive. She stated that she has been unable to find a town in southeastern Massachusetts that does compliance audits. The only time she is aware of doing such an audit is the result of some irregularity that is brought forward. For the FY 2011 audit, Mr. McGee was asked specifically to examine the issue of the allocation and appropriation of funds for environmental studies as part of the Management Letter which accompanies the audit. Mr. McGee stated that from the auditor's view, it is paramount to verify that the transactions are properly authorized. He had read the opinions of the legal counsel for the District and in this case, the auditor differs to the professional legal opinion of counsel. From the auditing perspective, they look to see if it is properly authorized, recorded and disclosed. In terms of its legal appropriateness within the District's enabling act, the auditor would defer to the District's counsel. He has read all of the opinions and documents regarding the question, and it is his understanding that the attorney for the District has opined on Section 9 of the enabling act, which gives the Board broad discretionary power regarding transactions that they deem to be in the best interest of the District, so long as it is approved, it is a legitimate expenditure. From his point of view, Mr. McGee felt that this was a demonstration of strong internal control based on the fact that the question was being raised and answered and the results were being disclosed. Mr. McDowell was troubled by the strong resistance to his request. He wants to know the cost of knowing the District is complying with its enabling act. Mr. Crowell said that we have been through this whole issue before when Mr. McGee was here previously. Ms. McMahon asked if there was a possibility of having Mr. McDowell express what his specific areas of concern are for the development of a scope of work because to include compliance with general law would be very expensive. Again, Mr. McDowell said he wanted to know if the District was compliant with all of the laws specifically relating to the Dennis Water District. Mr. McDowell clarified to say that he wanted the focus to be on compliance with the enabling act.

Main Station Septic Failure – Future Reserve Fund Transfer Request

The Superintendent advised that the septic system at the main station had failed over the previous weekend. It has been pumped but will need to be replaced. He explained that it will require a re-design as the current system is not Title V compliant. He also noted that the location of the system is not on District property. It is in the road lay out for Old Bass River Road. He wanted to advise the Board that, once the costs of constructing the system were known, he would likely be requesting a transfer from the Reserve Fund. He also stated that the District would need an easement from the Town of Dennis once the design was complete. An easement from the Town would require a vote at an Annual or Special Town Meeting.

Minutes: 9/22/11, 10/27/11, 12/22/11

There was unanimous consensus to defer the minutes to a future meeting.

EXECUTIVE SESSION: Phase II Water Main Extension Project – obtaining easements.

At approximately 7:12 PM, and in accordance with MGL Chapter 30A, Sec. 21(a)(1) Chairman Prue declared that an Executive Session was necessary as an open meeting would have a detrimental effect on the negotiating position of the Water Commissioners with the owners of a certain parcel of land of which an easement was necessary for the laying of transmission water main. A motion was made by Charles F. Crowell, and duly seconded, to adjourn to an Executive Session to consider the purchase, exchange, lease or value of real property for an easement on a parcel of land off Great Western Road and not to return to open session; the roll call vote having been taken was as follows:

Charles F. Crowell – Aye
Peter L. McDowell – Aye
Paul F. Prue – Aye

The Executive Session adjourned at 7:31 PM.

Respectfully Submitted,

Sheryl A McMahon, Clerk