

January 22, 2020

To the Board of Water Commissioners
Dennis Water District

We have audited the financial statements of Dennis Water District for the year ended June 30, 2019 and have issued our report thereon dated January 22, 2020. 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 January 22, 2020. 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 enhanced note disclosures and required supplementary information of the District's other post-employment benefits other than pension (OPEB) in accordance with GASB Statement No. 75. We noted no transactions entered into by the District 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 estimates affecting the financial statements are as follows:

1. **Net Pension Liability:** Management's estimate of Net Pension Liability is based on actuarial computations performed by an outside actuarial firm. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.
2. **Net Other Post-Employment Benefits Other Than Pension Obligation (OPEB):** Management's estimate of OPEB obligations is based on actuarial computations performed by an outside actuarial firm. We evaluated the key factors and assumptions used to develop the OPEB obligations in determining that it is reasonable in relation to the financial statements taken as a whole.

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3. Depreciation Expense: 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 dated January 22, 2020.

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 District'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 District'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 year ended June 30, 2019, we considered the District'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 report dated January 22, 2020 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 the Board of Water Commissioners 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, CPAs, LLC

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DENNIS WATER DISTRICT
Comments and Recommendations
June 30, 2019

GASB 75 New Other Post-Employment Benefits (OPEB) Standards

The new GASB 75 reporting requirement for the District's OPEB parallel the changes in reporting requirements as outlined by GASB No. 68, Accounting and Financial Reporting for Pensions (GASB 68), which applies similar accounting and financial reporting principles to pension plans. Like GASB 68, GASB 75 intends to improve accounting and financial reporting for OPEB by changing the way OPEB liabilities are calculated and increasing transparency in reporting.

GASB 75 replaces GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45)" and establishes new standards for recognizing and measuring liabilities, expense/expenditures, deferred outflows of resources, and deferred inflows of resources regarding OPEB. The new GASB statement requires the presentation of liability for OPEB obligations in the District's financial statements.

In addition, GASB 75 introduces more comprehensive disclosure information in the notes to the District's financial statements (see Note G). In addition to descriptions of the types of benefits and covered employees, how plan contributions are determined, and assumptions/methods used to calculate the OPEB liability, the standard also requires a description of changes of assumptions and other inputs. "sensitivity analysis" of the impact of healthcare cost trend rates and discount rates are required. There is also required supplementary information which includes a 10-year schedule of changes in the net OPEB liability and a 10-year schedule of contributions.

In light of the new GASB requirements the District has initiated a funding process and accumulated \$213,500 to its newly adopted OPEB Liability Trust resulting in a net OPEB liability of \$2,441,244 as of June 30, 2019.

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 done

DENNIS WATER DISTRICT
Comments and Recommendations
June 30, 2019

Accounting Manual Needed (continued)

- 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 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.

DENNIS WATER DISTRICT
Comments and Recommendations
June 30, 2019

Management's Assessment of Internal Control (continued):

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.

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.