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## **To the Board of Education Garfield School District RE-2 Rifle, Colorado**

We have audited the financial statements of Garfield School District RE-2 (the "District") for the year ended June 30, 2019. Professional standards require that we provide you with the following information related to our audit.

### ***Qualitative Aspects of Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the Notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 were:

- Estimated Net Pension Liability and Pension-Related Deferred Inflows and Outflows: These estimates are based on actuarial calculations and assumptions provided by the Public Employees Retirement Association of Colorado.
- Estimated Net Other Post-Employment Benefit's Deferred Inflows and Outflows: These estimates are based on actuarial calculations and assumptions provided by the Public Employees Retirement Association of Colorado.
- Estimated useful lives for depreciation on fixed assets: Management's estimate is based on industry practice and experience.

We evaluated the key factors and assumptions used to develop these estimates and found them reasonable in relation to the financial statements taken as a whole.

### ***Difficulties Encountered in Performing the Audit***

We encountered several difficulties in receiving timely and accurate data in order to complete our audit. Specific areas of concern are detailed below.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. As required by professional standards we have summarized the journal entries by financial statement element that were required subsequent to fieldwork to create accurate financial statements:

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<b>Fund / Audit Area</b>	<b>Direction of Net Change</b>	<b>Cumulative Adjustment Required</b>
<b>General Fund:</b>		
Cash and investments	Increase	\$424,923
Accounts receivable	Increase	\$260,615
Accounts payable	Increase	\$181,145
Deferred revenue	Increase	\$245,367
Expense	Increase	\$1,006,969
Grant revenue	Decrease	\$99,551
Prepaid expense	Decrease	\$279,598
Revenue	Increase	\$1,843,983
<b>Food Service Fund:</b>		
Accounts payable	Decrease	\$46,298
Cash	Increase	\$602
Deferred Revenue	Increase	\$5,435
Inventory	Decrease	\$8,336
Grant revenue	Increase	\$6,779
Revenue	Decrease	\$3,708
<b>Grant Fund:</b>		
Accounts payable	Decrease	\$66,155
Accounts receivable	Increase	\$287,020
Deferred grant revenue	Increase	\$52,121
Expense	Decrease	\$23,876
Grant revenue	Increase	\$184,002
Revenue	Increase	\$17,620
<b>Debt Service:</b>		
Accounts receivable	Increase	\$14,283
Cash	Increase	\$2,217,257
Deferred revenue	Increase	\$41,073
Expense	Decrease	\$2,217,257
Revenue	Increase	\$541,361
<b>Pupil Activity Fund:</b>		
Cash	Decrease	\$1,985
Equity	Increase	\$1,402
Expense	Increase	\$868
Revenue	Increase	\$11,557

Please note that the numbers presented above are net of offsetting journal entries; (e.g., an entry to a specific audit area could require a \$2,000 increase and \$1,000 decreasing thereby resulting a net amount of \$1,000 increase. The above entries indicate the District's quarterly financial statements are inaccurate and should not be relied upon to make financial decisions.

### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as 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***

As is required in an audit engagement we have requested certain representations from management that are included in the management representation letter.

### ***Material Weaknesses:***

In planning and performing our audit of the District's financial statements as of and for the year ended June 30, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the following deficiencies in the District's internal control to be material weaknesses.

### ***Reconciliation of District Cash and Investment Accounts***

A critical control required to safeguard District assets and ensure accurate financial reporting is the timely and proper reconciliation of cash and investment balances. The transactions occurring in bank and investment accounts must be reconciled against the transactions recorded in the District's financial reporting software. Failure to perform timely and accurate reconciliations creates a significant financial risk to the District. The District's reconciliations were not prepared timely nor accurately. The District's primary operating account was not reconciled throughout the year and the June reconciliations were not prepared as of the date of audit fieldwork (October 14<sup>th</sup>). The District reconciliation that was provided at the end of fieldwork was inaccurate. The District hired an outside accountant to complete the reconciliations which were later provided for audit. The District will need to implement a process to ensure that future cash and investments accounts are timely and properly prepared.

Completeness and Accuracy of Accounting Records

During the audit, there were many instances where the accounting system, records, and schedules did not agree with the underlying records. During audit fieldwork, many of the District's balance sheet accounts had balances that did not change from the prior year. Many of the District account balances required extensive reconciliation to finalize financial information that was reliable. This caused significant delays and additional effort in producing audited financial statements.

**Other Items:**

**Governmental Accounting Standards Board Statement 84**

Financial reporting standards for the District are promulgated by the Governmental Accounting Standards Board ("GASB"). GASB has issued Statement 84 which requires governments to change the presentation of agency funds. Effectively this will require the District to move Fund 74 activities to Fund 23 for fiscal year ended June 30, 2020.

This report is intended solely for the information and use of the Board of Education, management, and others within the organization and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

*McMahan and Associates, L.L.C.*

**McMahan and Associates, L.L.C.**  
**December 21, 2019**