



McMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

WEB SITE: www.McMAHANCPA.COM

MAIN OFFICE: (970) 845-8800

**To the Board of Education
Gunnison Watershed School District RE-1J
Gunnison, Colorado**

We have audited the financial statements of Gunnison Watershed School District RE-1J (the "District") for the year ended June 30, 2025. 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.

In 2024-25, the District adopted Governmental Accounting Standards Board Statement No. 101, *Compensated Absences* ("GASB 101"). GASB 101 requires that the District recognize a liability for all forms of compensated absences, including those that are not paid out upon an employee's separation from service, based on whether the District believes it is more likely than not that the leave will be paid out in future periods.

No other 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 District 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 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 the useful lives used in determining depreciation and found that it is reasonable in relation to the financial statements taken as a whole.
- 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 Benefits Liability and related Deferred Inflows of Resources, and Deferred Outflows of Resources: These estimates are based on actuarial calculations and assumptions provided by the Public Employees Retirement Association of Colorado.
- Pupil Count: Management makes a count of all pupils every October. If that count differs upon audit by CDE, the District's per pupil funding could retroactively change.
- Estimated liability for compensated absences: Management's estimate is based on leave accrual, usage, and forfeiture data.

Member: American Institute of Certified Public Accountants

Difficulties Encountered in Performing the Audit

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

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. The following material adjustments were posted during our audit:

- Accrue retainage payable for the District's ongoing bond renovation projects

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.

Capital Asset Disposals

During this year's audit, we were made aware of an anonymous letter alleging that the District improperly disposed of certain capital assets and that District employees have embezzled District funds in previous years. As such, we expanded our audit work on capital assets to directly address these allegations, including looking back at previous years' disposals identified in the letter. Our testing indicated that all assets identified in the letter were fully depreciated at time of disposal and we did not identify any instances of embezzlement of District funds. However, many assets appear to have been disposed of with minimal documentation; this lack of documentation was especially prevalent on assets that were traded for "in-kind" services. We also noted that the District revised its inventory management policy DID-R in response to the letter's allegations to explicitly state that "no assets shall be traded for in-kind services" and to increase documentation requirements around disposal of capital assets. The anonymous letter is a great reminder of the District's position as a fiduciary of public funds and the increased level of public scrutiny that accompanies. We recommend that the District ensure that all assets are disposed of in an appropriate way and adhere to its revised inventory management policy in future years.

Financial Reporting Model Improvements

Financial reporting standards for the District are promulgated by the Governmental Accounting Standards Board, which has issued Statement No. 103, Financial Reporting Model Improvements ("GASB 103") to improve the effectiveness of financial reporting in certain areas of the financial statements. These improvements include updates to the Management Discussion and Analysis; defining and reporting unusual or infrequent items; changes in the presentation of proprietary fund statements, along with aligning changes in the Statistical Section of Annual Comprehensive Financial Reports; information about major component units in basic financial statements; and budgetary comparison information.

GASB 103 is effective for reporting periods beginning after June 15, 2025, and all reporting periods thereafter, so the District must apply this standard for the 2026 fiscal year. We will work with the District to assist with implementation of this new standard.

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.

Avon, Colorado

December 17, 2025