M & H

Maggard & Hood, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

December 7, 2018

Board of Education
District Administrative Staff
San Juan County (Silverton) School District No. 1
Silverton, Colorado 81433

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities, each major fund, and each fiduciary fund type, of the San Juan County (Silverton) School District No. 1 as of and for the year ended June 30, 2018 and have issued our report thereon dated December 7, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards
As stated in our engagement letter dated August 9, 2018, our responsibility as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal controls of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit
We performed the audit fieldwork according to the planned scope and timing previously communicated to you during the planning stages of our audit procedures. There were delays in issuance of the final report due to additional assistance with standard year-end adjustments and significant changes in disclosures related to changes in both PERA and with the implementation of GASB Statement No. 75 as it relates to Other Post-Employment Benefits (OPEB) which added 8 pages to the report and affected 16 others.

Significant Audit Findings:

Qualitative Aspects of Accounting Practices

Significant Accounting Policies
Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

The significant accounting policies used are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of the existing policies was not changed during the year under audit. We noted no transactions entered into by the District during the year that were both significant and unusual or transactions 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.

● 901 GRAND AVENUE, SUITE 203 ● P.O. BOX 370 ● GLENWOOD SPRINGS, CO 81602 ●
● (970) 945-8588 ● FAX (970) 945-2398 ●

Qualitative Aspects of Accounting Practices – *continued*

Accounting Estimates
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. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures
The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements are:

- The disclosure of the measurement focus and basis of accounting in Note 1 of the financial statements.
- The disclosure of capital assets in Note 4 of the financial statements.
- The disclosure of long-term obligations in Note 5 of the financial statements.
- The disclosure of compliance in Note 16 of the financial statements.
- The disclosure of subsequent events in Note 18 of the financial statements.

We evaluated the key factors and underlying information used to develop the disclosures above in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit
We encountered no 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. Management has corrected all such misstatements. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

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
We have requested certain representations from management that are included in the management representation letter dated December 7, 2018.

Management 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 relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including 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.

COMMUNICATIONS WITH MANAGEMENT: INTERNAL CONTROLS COMMUNICATIONS

In planning and performing our audit of the financial statements, we considered internal control over financial reporting 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 internal control. Our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control system that we consider to be material weakness as defined above. However, we did note the following items which we believe merit your attention:

1) Due to the limited size of the staff, there is a lack of proper segregation of duties for the accounting and reporting functions (i.e., the functions of initiating, recording and processing payments) which results in an inherent risk that a misstatement that is more than inconsequential *could* occur and not be prevented or detected by the internal control system.

2) Management does not prepare its own year-end financial statements, inclusive of note disclosures. As such, management requested our firm to assist in the preparation of the draft financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in entities of your size and is a result of management's cost-benefit decision to use our accounting expertise rather than to incur additional costs.

Comments and Recommendations

Our audit provides an opportunity to observe operations and identify potential areas where improvements can be made and also areas that are functioning well. We found the books and records to be in sufficient working order. The balance sheet accounts were reconciled, prior year-end adjustments were properly recorded, and all transactions were adequately explained. We noted good awareness and compliance with sound business practices and controls, and no unusual adjustments to the financial records were necessary.

In the spirit of continually improving the efficiency and cost-effectiveness of the District's operations, we offer the following comments and recommendations.

Implementation of GASB Statement No. 75

As indicated above, this year the District was required to implement the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*, which revises and establishes new financial reporting requirements for post-employment benefits other than pensions (also known as OPEB). The implementation of GASB Statement No. 75 for OPEB, along with the previous implementation of GASB Statement No. 68 for PERA, are the biggest changes to financial reporting since GASB Statement No. 34.

The implementation of GASB Statement No. 75 was required for the District's participation in the PERA Health Care Trust Fund (HCTF), whereby the District is required to show its proportionate share of the Net OPEB Liability, as well as related Deferred Inflows/Outflows, on the Statement of Net Assets similar to the previous requirement to show the District's proportionate share of the PERA Net Pension Liability.

The implementation of GASB Statement No. 75 also required computation of the Net OPEB Liability and related disclosures for the preceding fiscal year in order to compute the required prior year restatement of Net Assets related to the Net OPEB Liability beginning balances coming into the current fiscal year.

General Accounting System

The general accounting system's overall reporting capabilities revealed no inherent limitations that would preclude access to specific information in order to fulfill internal and external reporting requirements. We recognize the efforts of the staff to maintain sufficient internal controls and other operating procedures and noted the implementation of prior year recommendations.

Interfund Balances

Amounts due/to from other funds should generally be satisfied (transferred) on an annual basis. We noted that there are interfund amounts dating back to 2014 for which physical cash transfers have not been made in order to eliminate these interfund balances as follows:

a. From General Fund to Cap Reserve Fund in the amount of $5,500.
b. From General Fund to Foundation in the amount of $4,850.
c. From Bond Redemption to General Fund in the amount of $1,569.15.

Student Activities Fund

There are several "stale" checks outstanding from fiscal years '15, '16 and '17 in the total amount of $1,020. These checks should be reviewed to determine if they should be voided if originally issued in error.

Food Service Fund

A physical food service inventory was not prepared at fiscal year-end; this should be done annually.

During our procedures we noted that the District had $1,243 commodities entitlement available which was not drawn down.

Although correct in total, several of the food service grants were posted to incorrect general ledger accounts. The checks received from CDE indicate the grant code to which the funding should be posted.

Preschool Fund

The final CDE PPR rate should be reviewed prior to audit fieldwork to ensure that the proper preschool allocation amount is posted to the general ledger.

After year-end adjustments, there is an amount of $1,000 due from the General Fund to the Preschool Fund. Since the Preschool Fund does not maintain a separate cash account, in order to eliminate the interfund balance, a fiscal year 2019 indirect transfer should be made for eligible preschool supplies expense in the amount of $1,000 (expensing supplies in the Preschool Fund and crediting supplies in the General Fund for eligible supplies it has purchased on behalf of the Preschool Fund).

Reimbursements

During our procedures, we noted that one employee does not appear to be remitting completed credit card Purchase Orders for reimbursements on a timely basis. We recommend a policy be adopted that POs for credit card reimbursements be submitted within 45 days of the expenditure, at latest, or that reimbursement will be denied.

Budgets

Although immaterial in amount, we noted that the Bond Redemption Fund budgets for transfers of interest earnings to the General Fund, but no corresponding receipt is budgeted in the General Fund.

General Fund Balances

As you are aware, the District's General Fund balance has been diminishing annually for the past several years. As of June 30, 2018, after the current year decrease of $249,491 the District's General Fund has only $15,161 available for future spending after consideration of non-spendable fund balances. As discussed in Note 8, the District subsequently received a 21st Century Community Learning Center Federal Grant in the amount of $175,000 which will help supplement eligible expenditures in the next fiscal year; however, the District's current level of spending is not sustainable over the long-term without additional revenue sources.

* * *

We have provided these and other general recommendations related to accounting for the District's activity; however, management is ultimately responsible for the selection and use of appropriate accounting policies and for oversight, thereof.

We are available at your convenience to clarify or assist you with any items discussed above or other concerns you may have.

This report is intended for the information and use of the Board of Education of the San Juan County (Silverton) School District No. 1, District management and others with the organization. This restriction is not intended to limit distribution of the report, which, upon acceptance by the Board of Directors, is a matter of Public Record.

We wish to thank the Board for engaging us to be your independent auditors and would like to extend a special thank you to the District staff for their assistance and cooperation in completing the audit.

Maggard & Hood, P.C.

MAGGARD & HOOD, P.C.