



**To the Town Council
Town of Marble, Colorado**

We have audited the financial statements of the Town of Marble, Colorado (the "Town") for the year ended December 31, 2021. 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 Town 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 during the year for which there is a lack of authoritative guidance or consensus.

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 capital assets along with related depreciation and accumulated depreciation, and the loan payable, which requires further information and corroboration with the Marble Water Company on the terms and balances of principal and interest due.

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 engagement, other than those that are trivial, and communicate them to the appropriate level of management. The prior year audit journal entries recorded, but not all reversed, and therefore were mostly repeated again this year. The accounting records were maintained on a cash basis, and entries were required to convert to accrual basis.

The following additional entries were also recorded:

- Reverse prior year accounts payable accruals (\$24,073)
- Reverse journal entry identified as transfer to prior year books (\$20,000)
- Accrue current year accounts payable accruals (\$5,987)
- Defer unspent grant proceeds received in 2021 to 2022 (\$16,840)
- Reverse reconciliation discrepancy expense due to transition in bookkeepers (\$14,707)

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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.

Recommendations

In planning and performing our audit of the basic financial statements of the District as of and for the year ended December 31, 2021 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 audit procedures that are appropriate in the circumstances 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

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 a 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. 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 attention by those charged with governance. We consider the following deficiencies in the Town's internal control to be material weaknesses:

Audit Reconciliations and QuickBooks database

During the audit, we performed reconciliations of accounts and recommended multiple journal entries required to correct accounts, which required review and comparison of the 2020 books for several transactions entered after the 2020 audit was completed. We also drafted the financial statements for the Town. Performing reconciliations, recommending several journal entries, and drafting the financial statements threatens our independence as auditors. We recommend that the Town annually reconcile all balance sheet accounts, post year-end accrual entries, and lock the QuickBooks file once a copy has been provided to the auditors, allowing only journal entries to be backdated to the year under audit.

Bank Reconciliations

During our testing of the Town's bank reconciliations, we noted that a couple of the Town's accounts had either several items that were improperly reconciled or were considered stale, given the length of time they have been outstanding. As a result, there are several outstanding transactions listed on the bank reconciliations that have already cleared the bank. As a result, cash was materially misstated prior to audit journal entries to correct. It is our understanding the errors that occurred in 2021 were due to the transition in bookkeeping personnel. We recommend that the Town go back to 2019, when the errors first started occurring, and individually re-reconcile each month to clear all outstanding transactions from the bank reconciliation.

Recommendations (continued)

The following items are not considered material weaknesses but are opportunities for improvement of the Town's day-to-day operations.

Personnel Classifications

As an employer, the Town is responsible for compliance with all applicable IRS rules and regulations as it pertains to employment taxation. It was discovered during the audit that the Town is still classifying certain temporary employees as independent contractors, and therefore not properly taxing wages or paying employer taxes. Our understanding for these misclassifications is that the employee is paid little in wages, and the administrative cost of the proper classification exceeded the seen benefit. Improperly classified employees could result in significant penalties and/or back taxes owed. We recommend the Town add all employees to payroll, even if such employees are considered temporary or seasonal.

New Financial Reporting Standard

Financial reporting standards for the Town are promulgated by the Governmental Accounting Standards Board ("GASB"). GASB has issued Statement 87, *Leases* ("GASB 87"), which requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 is effective for reporting periods beginning after June 15, 2021, so the Town's financial statements as of and for the year ending December 31, 2022 must reflect the changes imposed by this new reporting standard. Early implementation of GASB 87 is permitted.

We will work with you to support implementation of this new standard and the related presentation considerations over the coming years.

This report is intended solely for the information and use of the Town Council, 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.

Report date TBD