



Management
Town of Erie
Erie, Colorado

In planning and performing our audit of the financial statements of Town of Erie as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the entity'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 opinion 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 entity's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. This letter does not affect our report on the financial statements dated June 25, 2021, nor our internal control communication dated June 25, 2021.

- CLA notes that there was a lack of sufficient audit evidence to support rented hydrant billings. CLA recommends that the Town create a form for recording hydrant rental readings when reported that can be used and stored by the Town in future periods.
- CLA notes there is a budget violation within the expenditures of the Erie Urban Renewal fund of \$43,776. CLA recommends that the budget set out for the year be more closely observed or amended as needed.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Consideration of New Lease Standard

In June 2017, the Government Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This new leasing standard will fundamentally change lease recognition, measurement, and related disclosures for both government lessees and lessors. Your entity will be required to adopt the standard for its 2022 year-end financial statements.

Governments that seemingly have minimal leases or complexities may be unexpectedly impacted by this new accounting standard. Why? Leases exist in a variety of different forms and formats and may not be obvious or easily identified. We encourage management to begin the process of analyzing its leasing activity to determine the impact of this standard on the entity's financial statements and start to develop an implementation plan.

In summary, there are three critical elements to a successful implementation: understanding the changes as a result of GASB Statement No. 87 and what that means for the entity; identifying and gathering all necessary data; and implementing an accounting and software solution to produce the necessary financial information and disclosures. While the process seems simple enough, implementing the new lease standard could take more resources than most organizations realize. Three of the most common factors affecting the timeline, effort, and cost are: size and complexity of the leasing program for the entity; how structured and available the leasing agreements and data is; and the availability of internal resources and expertise to implement the standard.

Furthermore, for governmental funds under the modified accrual basis of accounting, the adoption of GASB Statement No. 87 may have a significant budgetary impact during years when the government enters into new lease agreements. Similar to the current guidance for capital leases, the present value of the lease will be required to be recorded as an expenditure at the start of the lease term. While this expenditure will be offset with another financing source, the budgetary impact of recording an expenditure for the present value of the lease must be considered.

We are available to assist you in developing your adoption and implementation plan. We can support the entity with a variety of solutions to facilitate a successful transition to GASB Statement No. 87. If you have further questions regarding the new accounting standard or need assistance, please let us know.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Broomfield, Colorado
June 25, 2021