



June 13, 2017

To the Honorable Mayor and Members of the Town Council
Town of Castle Rock, Colorado

We have audited the financial statements of Town of Castle Rock (the "Town") as of and for the year ended December 31, 2016 and have issued our report thereon dated June 13, 2017. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated February 15, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Town of Castle Rock solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Town is included in Note 1 to the financial statements. As described in Note 2, the Town implemented accounting policies related to fair value measurements and tax abatement agreements to adopt the provisions of GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 77, *Tax Abatement Disclosures*, respectively. No other matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

Management's estimate of the accrued claims liability for the Town's self-insured portion of employee health care, which are based on past experience and Management's estimate of the Net Pension Liability (NPL) and Net Pension Asset (NPA) account balances which are based on actuarial assumptions. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Town's financial statements relate to:

The disclosures of Deposits and Investments in Note 3, Restricted Assets in Note 4, Investment in Wastewater Capacity in Note 6, Long-Term Debt in Note 8, Risk Management in Note 12 and Commitments and Contingencies in Note 13 to the financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

General Fund

(To correct cash balance at year-end to correctly recorded voided checks in proper period)

Overstatement of accounts payable	\$52,535
Overstatement of cash	\$52,535

General Fund

(To reclass amount recorded as AR to a customer deposit or other asset)

Overstatement of accounts receivable	\$181,732
Understatement of other assets	\$181,732

In addition to the above uncorrected misstatements, we identified that sales tax receivables were presented as general revenues in the statement of net position in the amount of approximately \$262,000. This uncorrected presentation of receivables is immaterial both individually and in the aggregate, to the financial statements taken as a whole

Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no such misstatements in the current year.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated June 13, 2017.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Town, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Town's auditors.

Modification of the Auditor's Report

We have made the following modification to our auditor's report:

We included an emphasis of matter paragraph based on the Town's annual evaluation of component units. Through this evaluation it was determined that the Castle Rock Urban Renewal Authority should be included as a blended component unit and the Castle Rock Downtown Development Authority should be included as a discretely presented component unit. The Town has retroactively restated the previously reported net position to account for the inclusion of the discretely presented component unit. Our opinion was not modified with respect to this matter.

Components

The Town's government-wide financial statements include the financial statements of the Castle Rock Urban Renewal Authority (URA), a blended component unit. For the purposes of our audit, we do not consider the URA to be a significant component of the government-wide financial statements. Consistent with the audit of the government wide financial statements as a whole, our audit will include obtaining an understanding of the Town and the URA and their environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements of the Town and the URA and to design the nature, timing, and extent of further audit procedures.

The government-wide financial statements also include the financial statements of the Castle Rock Downtown Development Authority (DDA), which we consider to be a significant component of the Town's financial statements. The financial statements of the DDA are audited by other auditors and we will not take responsibility for the audit performed by the other auditors, rather will refer to their audit in our report. Our decision to refer to the report of the other auditor is based upon our evaluation of the materiality of the DDA with respect to the financial statements as a whole and the ability for group management to provide necessary audit evidence with respect to the DDA. Our planned audit procedures with respect to the DDA include required correspondence with the other auditor, obtaining and reading their auditor's report and the related financial statements, and other procedures as considered necessary. Our planned audit procedures with respect to the Town include obtaining an understanding of the Town and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements of the Town and to design the nature, timing, and extent of further audit procedures.

This report is intended solely for the information and use of the Honorable Mayor, members of Town Council, and management of the Town and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Erik Bailly, followed by the text "LLP".

Fort Collins, Colorado