

Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2025
Town of Castle Rock

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 1

Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 3

 Schedule of Expenditures of Federal Awards 7

 Notes to Schedule of Expenditures of Federal Awards 8

 Schedule of Findings and Questioned Costs 9



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Castle Rock (the Town), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated [Report Date].

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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 Town'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2025-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Town's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Denver, Colorado
June 11, 2026



Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Town of Castle Rock’s (the Town) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Town’s major federal program for the year ended December 31, 2025. The Town’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2025.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Town’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Town's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated June 11, 2026, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eide Bailly LLP

Denver, Colorado
June 11, 2026

Town of Castle Rock
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2025

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Financial Assistance Listing</u>	<u>Pass-through Entity Identifying Number</u>	<u>2025 Federal Expenditures</u>	<u>Provided to Subrecipients</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Program				
Community Development Block Program	14.218	*	\$ 176,521	\$ 24,628
Total Department of Housing and Urban Development			<u>176,521</u>	<u>24,628</u>
<u>U.S. Department of Justice</u>				
Direct Program				
Bulletproof Vest Partnership Program	16.607	*	8,153	-
Total Department of Justice			<u>8,153</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
Passed through Colorado Department of Transportation:				
Highway Planning and Construction				
Castle Rock Downtown Pedestrian Lighting Improvements	20.205	21-HTD-ZL-03197	357,386	-
Crystal Valley Interchange Package 2	20.205	24-HA1-XC-00205	431,000	-
Castle Rock Industrial Tributary Trail	20.205	23-HA1-XC-00082	208,223	-
5th St Operational Improvements	20.205	21-HA1-XC-00154	920,433	-
Total Highway Planning and Construction			<u>1,917,042</u>	<u>-</u>
National Highway Traffic Safety Administration				
Highway Safety Cluster				
Highway Safety Grant (Click it or Ticket)	20.600	411019725	10,283	-
Safe Streets and Roads for All	20.939	693JJ32340102	14,430	-
Total Department of Transportation			<u>1,941,755</u>	<u>-</u>
<u>U.S. Department of Treasury</u>				
Passed through the County				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	*	1,049,597	-
Total Department of Treasury			<u>1,049,597</u>	<u>-</u>
<u>U.S. Department of Energy</u>				
Direct Program				
Energy Efficiency and Conservation Block Grant	81.128	*	117,556	-
Total Environmental Protection Agency			<u>117,556</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 3,293,582</u>	<u>\$ 24,628</u>

* Pass-through number not available

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Town of Castle Rock (the Town) under programs of the federal government for the year ended December 31, 2025. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the Town.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

The Town does not draw for indirect administrative expenses and has not elected to use the de minimis cost rate up to 15%.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027
Dollar threshold used to distinguish between type A and type B programs:	\$1,000,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

2025-001: **Material Audit Adjustments**
 Material Weakness

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting to ensure transactions, including interfund activity, are properly recorded, classified, and reported in accordance with generally accepted accounting principles (GAAP).

Condition: Prior to the audit, management identified material adjustments related to the classification and accounting for interfund activity across multiple funds from the prior year. Specifically:

- Interfund transfers were improperly recorded instead of interfund loans between the Transportation and Transportation Capital funds (\$3,000,000).
- Interfund loan repayment activity between the Conservation Trust and Parks Capital funds (\$1,700,000) was not properly recorded.

As a result, the Town restated several balances to properly present fund balances and interfund balances as of December 31, 2025.

Cause: The internal control structure did not include sufficient review procedures or technical accounting expertise to ensure interfund transactions were properly evaluated, classified, and recorded in accordance with GAAP.

Effect: Failure to properly account for interfund activity resulted in restatements to fund balance and interfund balances across multiple funds.

Recommendation: We recommend management strengthen internal controls over financial reporting by:

- Implementing a formal review process over interfund activity, including evaluation of the substance of transactions (loan vs. transfer).
- Providing additional training or technical resources to personnel responsible for recording complex accounting transactions.
- Establishing documentation requirements to support the classification and approval of interfund transactions.

Views of Responsible Officials: Agree.

Section III – Federal Award Findings and Questioned Costs

2025-002 **Program:** Coronavirus State and Local Fiscal Recovery Funds
Federal Financial Assistance Listing Number: 21.027
Federal Grantor: U.S. Department of Treasury
Passed-Through: Douglas County
Award No. and Year: Multiple

Compliance Requirement: Reporting
Type of Finding: Significant Deficiency in Internal Control Over Compliance

Criteria:

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, requires non-Federal entities to establish and maintain effective internal control over federal awards that provides reasonable assurance the entity is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the federal award (§200.303). In addition, 2 CFR §200.328 and §200.329 require non-Federal entities and subrecipients to submit financial and performance reports in accordance with the terms and conditions of the federal award and pass-through entity requirements.

Condition:

The Town did not have documented or consistently applied internal controls to ensure compliance with the County’s subrecipient guidance requiring the submission of formal special reports for ALN 21.027. Specifically, the Town did not maintain written procedures or standardized documentation evidencing the preparation, review, approval, and submission of required special reports in the format prescribed by the pass-through entity.

Cause:

Management relied on email correspondence and progress meetings rather than a formally designed and implemented reporting control process.

Effect:

As a result, there is a reasonable possibility that required special reporting information submitted to the County could be incomplete, inconsistent, untimely, or not retained in accordance with federal and pass-through entity record retention requirements, without detection by management.

Questioned Costs:

No questioned costs were identified as a result of our procedures.

Context/Sampling:

No sampling was used as the population was too small to sample. Program reporting requirements were expenditures and amounts passed through to subrecipients were reconciled to the supporting records.

Repeat Findings from Prior Years:

No.

Recommendation:

The Town should establish and document internal controls over compliance with special reporting requirements for federal awards, including:

- Formal procedures for preparing special reports in the format required by the pass-through entity;
- Management review and approval of reports prior to submission; and
- Retention of complete and accurate reporting documentation in accordance with federal and pass-through entity requirements.

Views of Responsible Officials:

See separately issued Corrective Action Plan.