

Forvis Mazars Report to the Honorable Mayor and Members of the Town Council of the Town of Castle Rock

Town of Castle Rock, Colorado

Results of the 2023 Financial Statement Audit,
Including Required Communications

December 31, 2023

Required Communications Regarding Our Audit Strategy & Approach (AU-C 260)

Overview & Responsibilities

Matter	Discussion
Scope of Our Audit	<p>This report covers audit results related to your financial statements and supplementary information:</p> <ul style="list-style-type: none"> • As of and for the year ended December 31, 2023 • Conducted in accordance with our contract dated November 30, 2023 and amendment dated September 9, 2024
Our Responsibilities	<p>Forvis Mazars is responsible for forming and expressing opinions about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).</p>
Audit Scope & Inherent Limitations to Reasonable Assurance	<p>An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States (GAGAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. The scope of our audit tests was established in relation to the opinion unit being audited and did not include a detailed audit of all transactions.</p>
Extent of Our Communication	<p>In addition to areas of interest and noting prior communications made during other phases of the engagement, this report includes communications required in accordance with GAAS that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, including audit approach, results, and internal control. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.</p>
Independence	<p>The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.</p>



Matter	Discussion
Your Responsibilities	Our audit does not relieve management or those charged with governance of your responsibilities. Your responsibilities and ours are further referenced in our contract.
Distribution Restriction	<p>This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties:</p> <ul style="list-style-type: none"> • Honorable Mayor, Members of Town Council, and Management • Others within the Town of Castle Rock, Colorado (the Town) • Federal awarding agencies and pass-through entities

Government Auditing Standards

Matter	Discussion
Additional GAGAS Reporting	<p>We also provided reports as of December 31, 2023, on the following as required by GAGAS:</p> <ul style="list-style-type: none"> • Internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with GAGAS
Reporting Limitations	Our consideration of internal control over financial reporting and our tests of compliance were not designed with an objective of forming an opinion on the effectiveness of internal control or on compliance, and accordingly, we do not express such an opinion.

Uniform Guidance Overview & Responsibilities

Matter	Discussion
Scope of Our Audit	<p>We also provided reports as of December 31, 2023, on the following as required by U.S. Office of Management and Budget (OMB) Uniform Guidance:</p> <ul style="list-style-type: none"> • Opinion on compliance for each major federal award program • Report on internal control over compliance • Schedule of Expenditures of Federal Awards
Audit Scope & Inherent Limitations to Reasonable Assurance	A compliance audit performed in accordance with OMB Uniform Guidance is designed to obtain reasonable, rather than absolute, assurance about whether noncompliance with the types of compliance requirements described in the <i>OMB Compliance Supplement</i> that could have a direct and material effect on a major federal award program occurred.

Group Audits

Referred-To Auditors

Our audit strategy included the use of the work of a referred-to auditor, resulting in a division of responsibility over the group financial statements and our report thereon.

We did not audit the financial statements of the Plum Creek Water Reclamation Authority, a joint venture of the Town, which statements represent 29% of the assets and 30% of the net position of the Wastewater Enterprise Fund and 4% of the assets and 5% of the net position of the Town's business-type activities as of December 31, 2023. We also did not audit the financial statements of the Castle Rock Downtown Development Authority or the Miller's Landing Business Improvement District, which together represent the aggregate discretely presented component units of the Town as of December 31, 2023.

Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Plum Creek Water Reclamation Authority, the Castle Rock Downtown Development Authority and the Miller's Landing Business Improvement District, are based solely on the reports of the other auditors. We have had communications with the other auditors during planning and throughout the audit regarding their qualifications to perform the audit, including independence, and consideration of materiality as a basis for referring to their audit report. Professional standards require that we provide you with information about our responsibilities in accordance with GAAS, as well as certain information related to the planned scope and timing of our audit.

Other Information Accompanying the Audited Financial Statements

The audited financial statements are presented along with management's annual comprehensive financial report and popular annual financial report. Management, or those charged with governance, is responsible for preparing the annual report.

We were not engaged to audit the information contained in the annual comprehensive financial report or popular annual financial report, and as a result, our opinions do not provide assurance as to the completeness and accuracy of the information contained therein.

As part of our procedures, we read the entire report to determine if financial information discussed in sections outside the financial statements materially contradicts the audited financial statements. If we identify any such matters, we bring them to management's attention and review subsequent revisions.

Auditor Objectives Related to Other Information

Our objectives related to the other information accompanying the audited financial statements were to:

- Consider whether a material inconsistency exists between the other information and the financial statements
- Remain alert for indications that:
 - A material inconsistency exists between the other information and the auditor's knowledge obtained in the audit, or
 - A material misstatement of fact exists or the other information is otherwise misleading
- Respond appropriately when we identify that such material inconsistencies appear to exist or when we otherwise become aware that other information appears to be materially misstated. Potential responsive actions would include requesting management to correct the identified inconsistency
- Include the appropriate communication in our auditor's report, disclosing the procedures performed on the Other Information, as well as the results obtained
 - No matters are reportable

Qualitative Aspects of Significant Accounting Policies & Practices

Significant Accounting Policies

Significant accounting policies are described in Note 1 of the audited financial statements.

With respect to new accounting standards adopted during the year, we call to your attention the following topics detailed in the following pages:

- GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (determined to be not applicable to the Town)
- GASB 96, *Subscription-based Information Technology Arrangements (SBITAs)* (determined to be immaterial to the Town and excluded from financial statements)

Unusual Policies or Methods

With respect to significant unusual accounting policies or accounting methods used for significant unusual transactions (significant transactions outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature), we noted the following:

- No matters are reportable

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within GAAP for policies and practices for material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

Management Judgments & Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates include:

- Valuation of investments
- Useful lives of capital assets
- Valuation of contributed capital
- Net pension liabilities (assets) and related deferred outflows of resources and deferred inflows of resources
- Incremental borrowing rate for lease receivables and SBITAs

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Implementation of new GASB standards
- Related-party transactions

Our Judgment About the Quality of the Town's Accounting Principles

During the course of the audit, we made the following observations regarding the Town's application of accounting principles:

- Adoption of GASB 96, *Subscription-based Information Technology Arrangements*

Adjustments Identified by Audit

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Proposed & Recorded Adjustments

Auditor-proposed and management-recorded entries include the following:

- No matters are reportable

Uncorrected Misstatements

Some adjustments proposed were **not recorded** because their effect is not currently considered material. We request that all identified misstatements be corrected.

Uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole are included as an attachment to this communication.

While these uncorrected misstatements were deemed to be immaterial to the current-period financial statements, it is possible that the impact of these uncorrected misstatements, or matters underlying these uncorrected misstatements, could potentially cause future-period financial statements to be materially misstated.

Current-Period Uncorrected Misstatements

- SBITAs
- Revenue recognition
- Unearned revenues
- Accounts receivable
- Sales tax accrual
- Capital assets

Prior-Period Uncorrected Misstatements

- Capitalization of pole credits
- Accrual of tax sharebacks

Other Required Communications

Significant Issues Discussed with Management

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Implementation of GASB 96, *Subscription-based Information Technology Arrangements*
- Various financial statements presentation items

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (see Attachments)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

Required Communications Regarding Internal Control (AU-C 265)

Consideration of Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Town of Castle Rock, Colorado as of and for the year ended December 31, 2023, in accordance with GAAS and GAGAS, we considered the Town's internal control over financial reporting (internal control).

This consideration served as a basis for designing audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements.

However, this consideration was **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.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs 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 were not identified.

This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties:

- Town Council, Audit Committee, and Management
- Others within the Town
- Federal awarding agencies and pass-through entities

Categorizing Deficiencies by Severity

Deficiency

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.



Significant Deficiency

A significant deficiency is a deficiency, or 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.



Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatements of the Town's financial statements will not be prevented or detected and corrected on a timely basis.



Identified Deficiencies

We identified deficiencies in internal control that we consider to be a deficiency or a significant deficiency.

Significant Deficiency

Refer to the Independent Auditor's Report on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

Deficiency

Information Technology

The current Town policy requires "All accounts shall be reviewed at least annually by the data owner to ensure that access and account privileges align with job function, need-to-know, and employment status. The Information Security Manager may also conduct periodic reviews for any system connected to the Town network." During the audit work it was determined that there had not been a formal user access review performed for any of the IT applications that were reviewed as part of the audit. We recommend that a process be put in place for these systems to comply with Town policy and general best practices.

We observed other matters that we consider to be deficiencies that we communicated to management orally.

Other Financial Reporting Matters

Although not considered material weaknesses, significant deficiencies, or deficiencies in internal control over financial reporting, we also observed other matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist.

However, these other matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures.

We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Third-Party Systems

It was noted during review that not all of the third-party systems utilized in operations have a SOC Report available. A SOC Report is used to confirm whether the service organization's controls are in place and operating effectively and includes a broader scope that includes the people, systems and services used to store, transmit and process customer data. Management should ensure in procuring third party systems that a criterion in the evaluation process be that an annual SOC Report is performed.

Future Accounting Pronouncements

GASB Statement No. 100, *Accounting Changes and Error Corrections (GASB 100)*

GASB 100 updates accounting and financial reporting requirements for accounting changes and error corrections to address current diversity in practice by amending GASB Statement No. 62. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. For each type of accounting change and error correction, GASB 100 addresses accounting and reporting requirements, display, including display in the financial statements, note disclosures, and impact on required supplementary information (RSI) and supplementary information (SI).

The requirements of GASB 100 are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences (GASB 101)*

GASB 101 updates the recognition and measurement guidance for compensated absences under a unified model. It defines compensated absences and requires that liabilities be recognized in financial statements prepared using the economic resources measurement focus for leave that has not been used and leave that has been used but not yet paid or settled. A liability for compensated absences should be accounted for and reported on a basis consistent with governmental fund accounting principles for financial statements prepared using the current financial resources measurement focus. GASB 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of GASB 101 are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The changes adopted at transition to conform to the provisions of GASB 101, should be reported as a change in accounting principle in accordance with Statement No. 100, *Accounting Changes and Error Corrections*, including the related display and disclosure requirements.

GASB Statement No. 102, *Certain Risk Disclosures (GASB 102)*

State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

GASB Statement No. 103, *Financial Reporting Model Improvement (GASB 103)*

This statement was issued by GASB to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

Key changes captured by this statement include:

- a. Management's Discussion and Analysis – This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government.
- b. Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position – this Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for *operating income (loss) and noncapital subsidies* be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide

goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

- c. Budgetary Comparison Information – this Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.
- d. Unusual or Infrequent Items – this Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.
- e. Major Component Unit Information – this Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

The requirements of GASB 103 are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

Attachments

Management Representation Letter

As a material communication with management, included herein is a copy of the representation letter provided by management at the conclusion of our engagement.

Schedule of Uncorrected Misstatements

The details of uncorrected misstatements identified as a result of our engagement are included herein.

Attachment A
Management Representation Letter

Attachment B

Schedule of Uncorrected Misstatements