



June 11, 2026

To the Town Council
Town of Castle Rock
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, 2025, and have issued our report thereon dated June 11, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated February 13, 2026, 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 and to express an opinion on whether the Town complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs. Our audit of the financial statements and major program compliance 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 system of internal control of the Town solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the Town's major federal program compliance, is to express an opinion on the compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing 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 internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the Town's internal control over compliance.

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.

We have provided our comments regarding internal controls during our audit in our 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* dated June 11, 2026. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated June 11, 2026.

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 discussed in Note 1 to the financial statements, the Town has changed accounting policies related to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 102, *Certain Risk Disclosures* which requires financial statement disclosure about risks related to a government's vulnerabilities due to certain concentrations or constraints for the year ended December 31, 2025. No 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.

Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures 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 are the valuations surrounding the net pension liability/asset and compensated absences.

Management’s estimate of the valuations surrounding the net pension liability are based on actuarial valuations, historical costs and market valuations and interpretation of laws and regulations and the estimate of compensated absences is based on historical usage of staff benefit leave balances. We evaluated the key factors and assumptions used to develop these estimates and determined that it is reasonable in relation to the basic 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 Pension Plans in Note 11, Risk Management in Note 13, Commitments in Note 14, and the Restatement in Note 21.

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. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. The following misstatements that were identified and corrected by management:

Transportation

| | | |
|---|-------------|-------------|
| DR. Interfund receivables | \$3,000,000 | |
| CR. Fund balance | | \$3,000,000 |
| <i>To adjust interfund transfers to interfund loans</i> | | |

Transportation Capital

| | | |
|---|-------------|-------------|
| DR. Fund balance | \$3,000,000 | |
| CR. Interfund payable | | \$3,000,000 |
| <i>To adjust interfund transfers to interfund loans</i> | | |

Conservation Trust

| | | |
|--|-------------|-------------|
| DR. Fund balance | \$1,700,000 | |
| CR. Interfund receivables | | \$1,700,000 |
| <i>To adjust payoff of interfund loans</i> | | |

Parks Capital

| | | |
|--|-------------|-------------|
| DR. Interfund payable | \$1,700,000 | |
| CR. Fund balance | | \$1,700,000 |
| <i>To adjust payoff of interfund loans</i> | | |

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.

General Fund

| | | |
|-----------------------------|-----------|-----------|
| DR. Capital outlay | \$432,773 | |
| CR. Other financing sources | | \$432,773 |
| <i>Record new SBITA</i> | | |

Fleet Fund

| | | |
|-----------------------------|-----------|-----------|
| DR. Capital outlay | \$577,598 | |
| CR. Other financing sources | | \$577,598 |
| <i>Record new SBITA</i> | | |

Governmental Activities

| | | |
|--|-----------|-------------|
| DR. Right-to-use SBITA asset (net) | \$848,551 | |
| DR. Net position | 334,411 | |
| CR. SBITA liabilities | | \$1,182,962 |
| <i>Record SBITA assets and related liabilities</i> | | |

The following summarizes corrected 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 but were elected to be recorded by management:

Transportation Capital

| | | |
|---|-----------|-----------|
| DR. Deferred inflows of resources | \$183,009 | |
| CR. Receivables | | \$183,009 |
| <i>To adjust receivables and related deferred inflows of resources related to grants.</i> | | |

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.

Circumstances that Affect the Form and Content of the Auditor’s Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor’s report. We added an emphasis of matter paragraph to our Independent Auditor’s Report as follows:

As discussed in Note 21 to the financial statements, certain errors related to interfund activity as of December 31, 2024, were discovered by management of the Town during the current year. Accordingly, a restatement has been made to the Transportation, Transportation Capital, Conservation Trust, and Parks fund balances as of January 1, 2025 to correct the error. Our opinions are not modified with respect to that matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated June 11, 2026.

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, significant events or transactions that occurred during the year, operating 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.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the Town's annual reports, does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Additionally, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Denver, Colorado