

Town of Castle Rock, Colorado

Single Audit Report

Year Ended December 31, 2018

Town of Castle Rock, Colorado
December 31, 2018

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Town of Castle Rock, Colorado
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Award Amount	Accrued or (Deferred) Revenue 12/31/2017	Receipts	Federal Expenditures	Accrued or (Deferred) Revenue 12/31/2018
U.S. DEPARTMENT OF JUSTICE							
Direct awards:							
Bulletproof Vest Partnership Program (2016)	16.607	N/A	\$ 6,596	\$ 471	\$ 471	\$ -	\$ -
Bulletproof Vest Partnership Program (2017)	16.607	N/A	7,907	5,405	5,405	2,502	2,502
Bulletproof Vest Partnership Program (2018)	16.607	N/A	10,800	-	-	4,255	4,255
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>25,303</u>	<u>5,876</u>	<u>5,876</u>	<u>6,757</u>	<u>6,757</u>
U.S. DEPARTMENT OF TRANSPORTATION							
Passed through from the Colorado Department of Transportation:							
Highway Planning and Construction Cluster							
Highway Planning & Construction (2017) <i>Meadows Parkway Reconstruction : US 85 to Meadows Boulevard</i>	20.205	17-HAI-XC-00073	1,333,000	-	879,899	1,333,000	453,101
Highway Planning & Construction (2017) <i>Founders Parkway(SH86) & Allen Way Intersection Improvements</i>	20.205	17-HA1-ZH-00080	2,000,000	169,367	191,362	21,995	-
Highway Planning & Construction (2015) <i>Plum Creek Parkway @ Sellers Gulch Bro M185-005Project</i>	20.205	15-HA1-73176	544,000	51,029	67,203	25,199	9,025
<i>Subtotal Highway Planning and Construction Cluster</i>			<u>3,877,000</u>	<u>220,396</u>	<u>1,138,464</u>	<u>1,380,194</u>	<u>462,126</u>
Highway Safety Cluster							
National Priority Safety Programs (2018) <i>Highway Safety Grant (Click it or Ticket)</i>	20.616	411016560	16,000	-	15,229	15,229	-
State and Community Highway Safety (2018) <i>Mini Grant - Castle Rock PD Traffic Unit</i>	20.600	411016116	4,950	-	4,950	4,950	-
<i>Subtotal Highway Safety Cluster</i>			<u>20,950</u>	<u>-</u>	<u>20,179</u>	<u>20,179</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>3,897,950</u>	<u>220,396</u>	<u>1,158,643</u>	<u>1,400,373</u>	<u>462,126</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 3,923,253</u>	<u>\$ 226,272</u>	<u>\$ 1,164,519</u>	<u>\$ 1,407,130</u>	<u>\$ 468,883</u>

Town of Castle Rock, Colorado
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) 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, 2018. The information in this Schedule is presented in accordance with the 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). 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/fund balance or cash flows of the Town.

Governmental funds account for the Town's federal grant activity. As such, expenditures reported on the Schedule are reported on the modified accrual basis of accounting. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Town has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2: Subrecipients

The Town of Castle Rock does not have any subrecipients.

**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**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Castle Rock, Colorado (the Town), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated June 5, 2019, which contained a paragraph emphasizing matters regarding the financial statements and a reference to the report of other auditors. The financial statements of the Plum Creek Water Reclamation Authority, a joint venture included in the Wastewater Enterprise Fund and business-type activities of the Town, and the financial statements of the Castle Rock Downtown Development Authority, the discretely presented component unit of the Town, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Plum Creek Water Reclamation Authority or the Castle Rock Downtown Development Authority.

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) to determine the 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 entity'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.

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

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 determination of financial statement amounts. 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

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
June 5, 2019

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

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

Report on Compliance for the Major Federal Program

We have audited Town of Castle Rock's (the Town) compliance with the types of compliance requirements described 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, 2018. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

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

Opinion on the Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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

**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 discretely presented component unit, each major fund and the aggregate remaining fund information of the Town as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated June 5, 2019, which contained unmodified opinions on those financial statements, a paragraph emphasizing matters regarding the financial statements and referenced the report of other auditors. 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 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.

BKD, LLP

Denver, Colorado
June 5, 2019

Town of Castle Rock, Colorado
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

Section I – Summary of Auditor's Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP):
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer
2. Internal control over financial reporting:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None reported
3. Noncompliance considered material to the financial statements noted?
☐ Yes ☒ No

Federal Awards

4. Internal control over compliance for major federal awards programs:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
5. Type of auditor's report issued on compliance for major federal award programs:
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?
☐ Yes ☒ No
7. Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction Cluster

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
9. Auditee qualified as a low-risk auditee?
☐ Yes ☒ No

Town of Castle Rock, Colorado
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2018

Section II – Financial Statement Findings

**Reference
Number**

Finding

2018-001 Finding: Restatement of Prior Year Financial Statements

Criteria or Specific Requirement: GASB Statement No. 9 (GASB 9), *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* requires that the cash flow statement focus and explain the change of cash and cash equivalents. GASB 9 defines cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity they present insignificant risk of changes in value due to changes in interest rates. GASB 9 clarifies that investments with original maturities of three months or less meet the definition of a cash and cash equivalent.

Condition: The Town's cash flow statements reconciled to cash and investments which included certain investments not meeting its accounting policy definition of cash and cash equivalents as provided for by GASB 9.

Effect: During 2018, the Town corrected beginning cash and cash equivalents at January 1, 2018 to exclude investments not meeting its cash equivalents definition. This change resulted in a restatement of beginning cash and cash equivalents reported in the cash flow statement by \$70.3 million.

Cause: The Town pools its cash and investments and reports them on a combined basis in the statement of net position. Management utilized the combined cash and investment amount to prepare the cash flow statement and therefore, investments not meeting the Town's accounting policy definition of cash and cash equivalents were improperly included as a cash equivalent in the cash flow statement.

Recommendation: We recommend that management add procedures to its year-end close process to review and remove any investments not meeting its definition of a cash and cash equivalent from the cash flow statement. To make the preparation of the cash flow statement easier, we also recommend management consider reporting cash and cash equivalents and investments as separate line items in the financial statements.

Views of Responsible Officials: The Town agrees with the finding. See separate report for planned corrective actions.

Town of Castle Rock, Colorado

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2018

Reference Number	Finding
2018-002	<p>Finding: Accounting for Grants</p> <p>Criteria or Specific Requirement: GASB Statement No. 33, <i>Accounting and Financial Reporting for Nonexchange Transactions</i> requires that revenues and expenses relating to grants being recognized when all eligibility requirements have been met and for governmental fund financial statements when the resources are available. Eligibility requirements under expenditure driven grant programs are met when the recipient has incurred allowable costs under the grant program. GASB Statement No. 65, <i>Items Previously Reported as Assets and Liabilities</i> further stipulates that when an asset is recorded in governmental fund financial statements but the revenue is not received in the defined available period, the government should report deferred inflows of resources until the revenue becomes available.</p> <p>Condition: Eligibility requirements of a grant from the Colorado Department of Transportation (CDOT) were met as of December 31, 2018; however, as the receivable was not collected within 60 days of year-end (the Town's available period) the receivable and related deferred inflows of resources for amounts not received within the available period were not recorded in the Town's transportation fund and the receivable and revenue were not recorded in the Town's government-wide financial statements.</p> <p>Effect: Total receivables and deferred inflows of resources for the transportation fund and receivables and revenues in the government-wide financial statements are understated by \$453,101 as of December 31, 2018. An entry was proposed but was not recorded in the financials statements.</p> <p>Cause: Accounting guidance relating to grants receivable and revenue recognition was incorrectly applied in the current year.</p> <p>Recommendation: We recommend the Town update its year-end close procedures related to grants receivable to ensure all grants are properly recorded. We further recommend the Town implement procedures to ensure deferred inflows of resources is recorded in the governmental fund financial statements for any receivables not received within the Town's available period.</p> <p>Views of Responsible Officials: The Town agrees with the finding. See separate report for planned corrective actions.</p>

Town of Castle Rock, Colorado
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2018

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
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No matters are reportable.

Town of Castle Rock, Colorado
Status of Prior Year Audit Findings
Year Ended December 31, 2018

Reference Number	Summary of Finding	Status
No matters are reportable		