

Town of Castle Rock, Colorado

Report to the Honorable Mayor and Members of Town Council

June 5, 2019

Results of the 2018 financial statement audit, internal control matters
and other required communications.



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June 5, 2019

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

Dear Honorable Mayor and Members of Town Council:

We have completed our audit of the financial statements of the Town of Castle Rock, Colorado (the Town) as of and for the year ended December 31, 2018. This report includes communication required under auditing standards generally accepted in the United States of America as well as other matters.

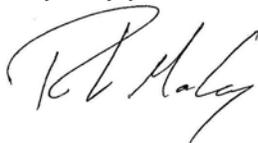
Our audit plan represented an approach responsive to the assessment of risk of material misstatement in financial reporting for the Town. Specifically, auditing standards require us to:

- Express opinions on the December 31, 2018 financial statements.
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.
- 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 Uniform Guidance.
- Issue communications required under auditing standards generally accepted in the United States of America to assist the Town Council in overseeing management's financial reporting and disclosure process.

This report also presents an overview of areas of audit emphasis, as well as future accounting standards and industry developments for governments.

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

Very truly yours,



Rob D. McCoy, CPA
Partner



Marcella D. Ardan, CPA
Director

Summary of Our Audit Approach and Results

Our Approach

BKD’s audit approach focuses on areas of higher risk—the unique characteristics of the Town’s operating environment, the design effectiveness of your internal controls and your financial statement amounts and disclosures. The objective is to express opinions on the conformity of your financial statements, in all material respects, with accounting principles generally accepted in the United States of America.

Areas of Audit Emphasis

The principal areas of audit emphasis and results were as follows:

Risk Area	Risk Area	Results
All	<ul style="list-style-type: none"> Management override of controls 	➤ No matters are reportable.
All	<ul style="list-style-type: none"> Revenue recognition 	➤ An error in revenue recognition relating to grants receivable was noted. See finding 2018-002 in the separately issued single audit report.
Governmental and business-type activities, major enterprise funds and other aggregate remaining funds	<ul style="list-style-type: none"> Capital assets 	➤ No matters are reportable.
Single audit	<ul style="list-style-type: none"> Compliance with requirements described in the U.S. Office of Management and Budget, <i>Compliance Supplement</i> for major federal awards programs 	➤ No matters are reportable.

Significant Estimates

The preparation of the financial statements requires considerable judgment because some assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses are “estimated” based on management’s assumptions about future outcomes. Estimates may be dependent on assumptions related to economic or environmental conditions, regulatory reform or changes in industry trends.

Some estimates are inherently more difficult to evaluate and highly susceptible to variation because the assumptions relating to future outcomes have a higher degree of uncertainty. To the extent future outcomes are different than expected, management's estimates are adjusted in future periods, sometimes having a significant effect on subsequent period financial statements. The following are considered to be significant estimates for the Town:

- **Valuation of Investments**
- **Useful Lives of Capital Assets**
- **Claims payable**
- **Net Pension Liability (Asset) and Related Deferred Outflows and Inflows of Resources**

Opinion

Unmodified, or "Clean," Opinions Issued on Financial Statements

We have issued unmodified opinions as to whether the financial statements of the Town, as of and for the year December 31, 2018, are fairly presented, in all material respects. An emphasis of matter paragraph was included highlighting a correction of an error in prior financials. This emphasis of matter paragraph does not modify our opinions.

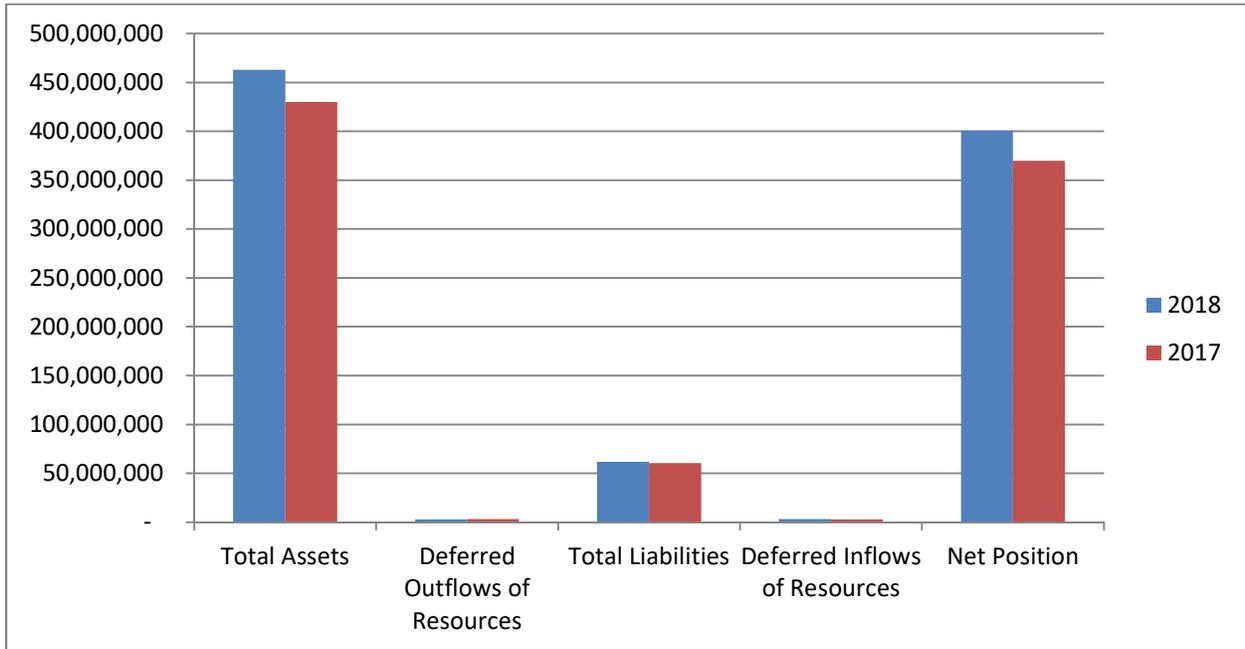
Requirements Under OMB Uniform Guidance

Our audit included reporting on major federal award programs and includes:

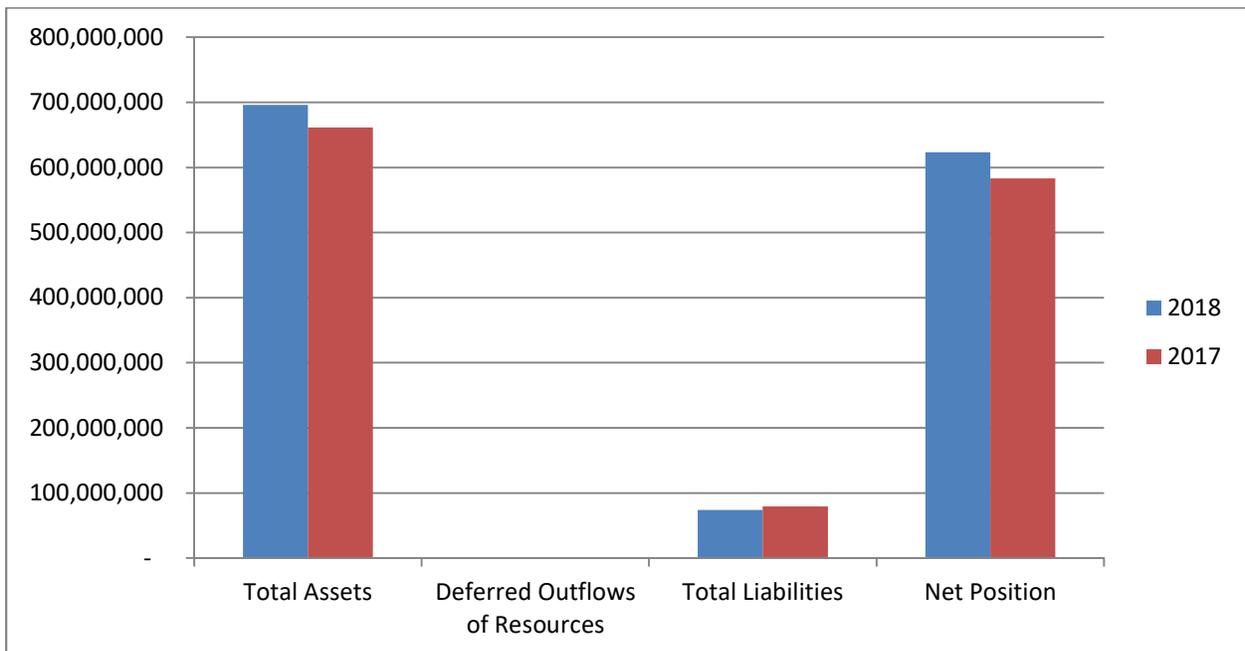
- Schedule of Expenditures of Federal Awards
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards required by the Uniform Guidance
- Schedule of Findings and Questioned Costs
- Data Collection Form

Statement of Net Position as of December 31

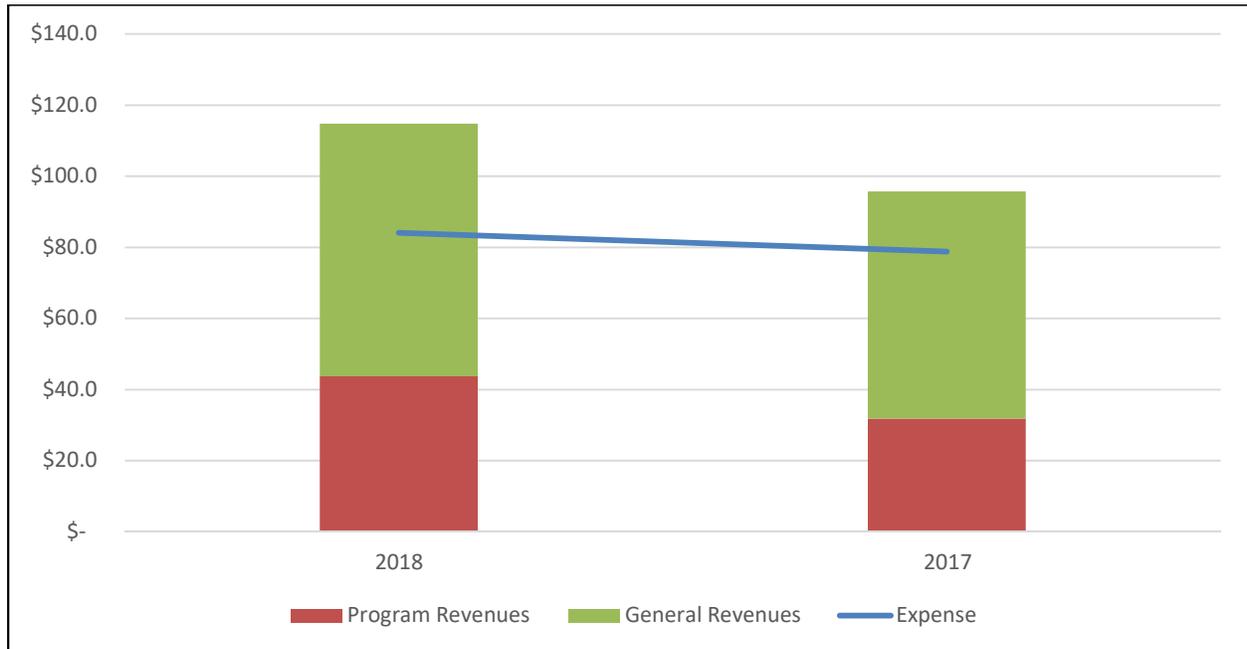
Governmental Activities

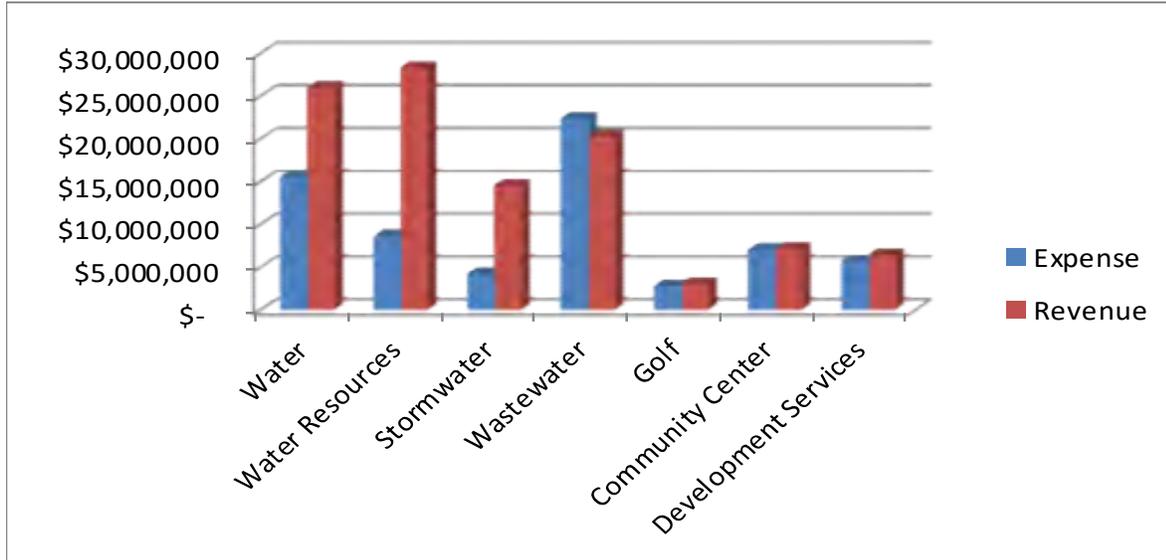
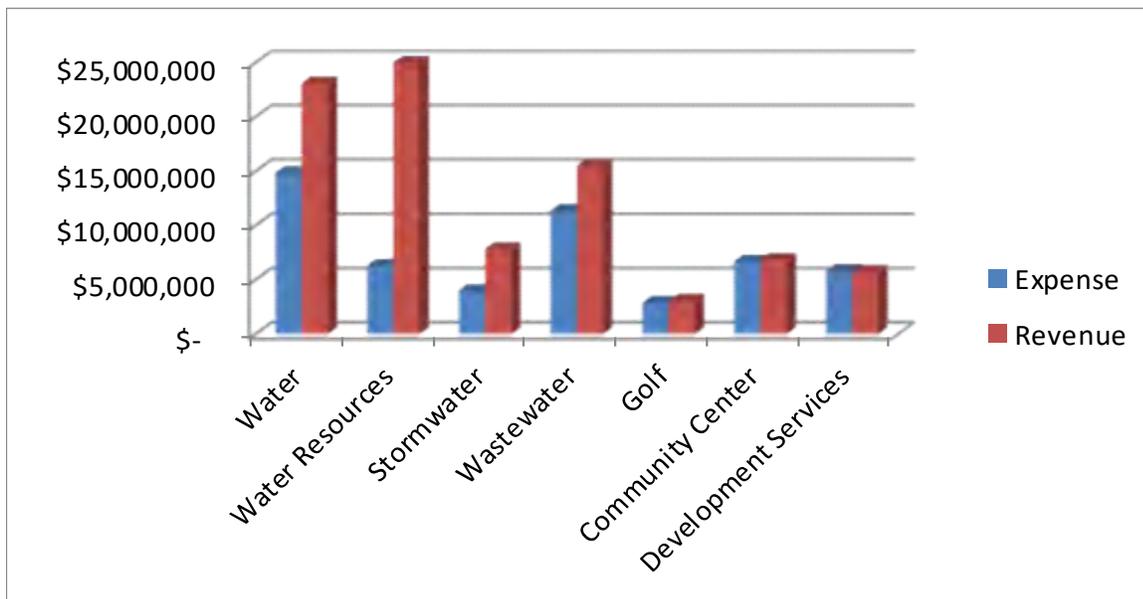


Business-type Activities



Expenses and Program Revenues – Governmental Activities (in millions)

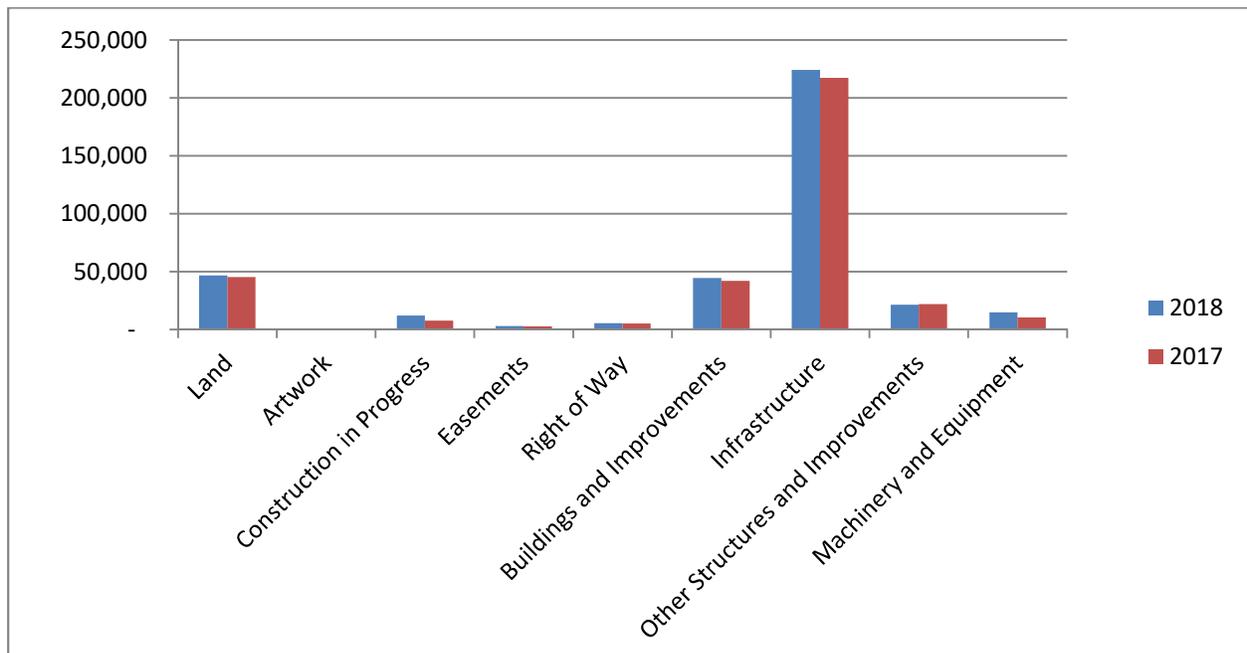


Expenses and Program Revenues – Business-type Activities**2018****2017**

Note: Community Center amounts include tax revenues reported in general revenues on the statement of activities.

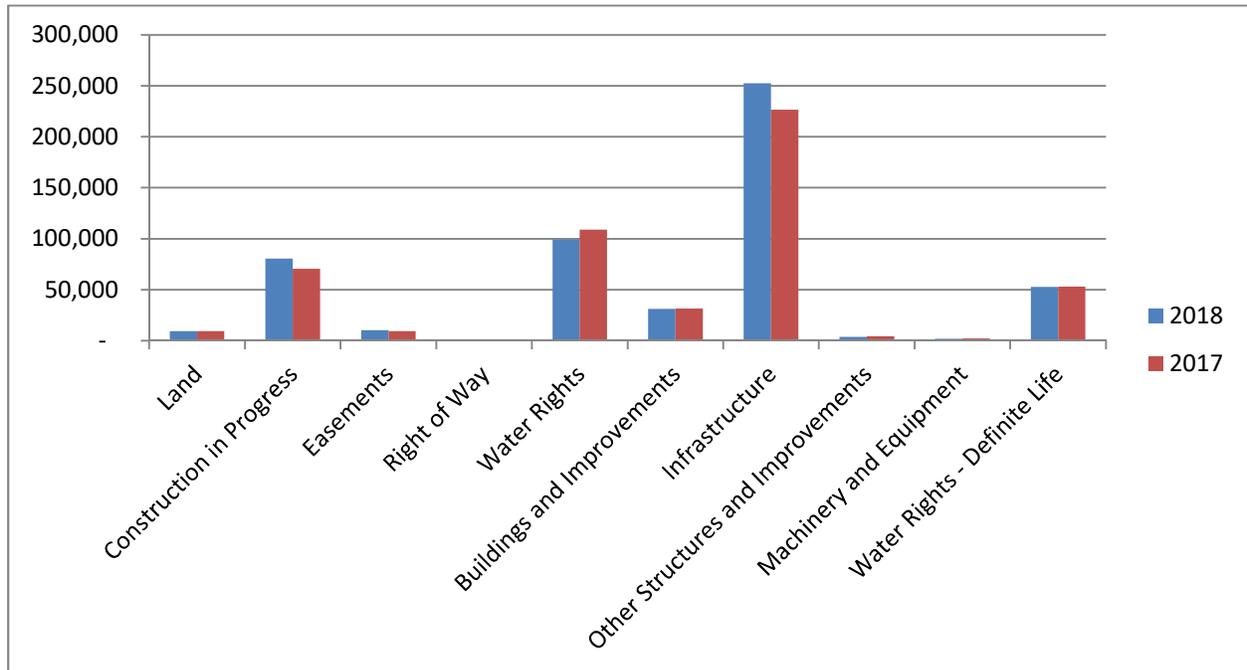
Capital Assets – Net of Accumulated Depreciation (in thousands)

Governmental Activities



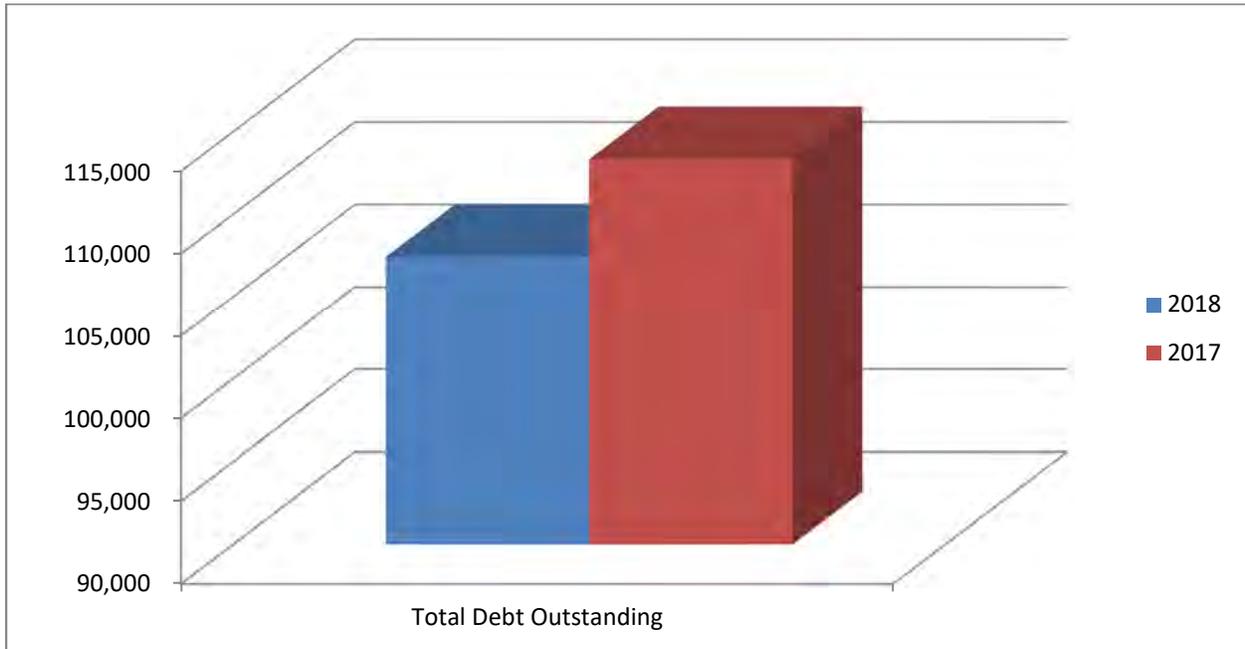
Capital Assets – Net of Accumulated Depreciation (in thousands)

Business-type Activities



Outstanding Debt as of December 31

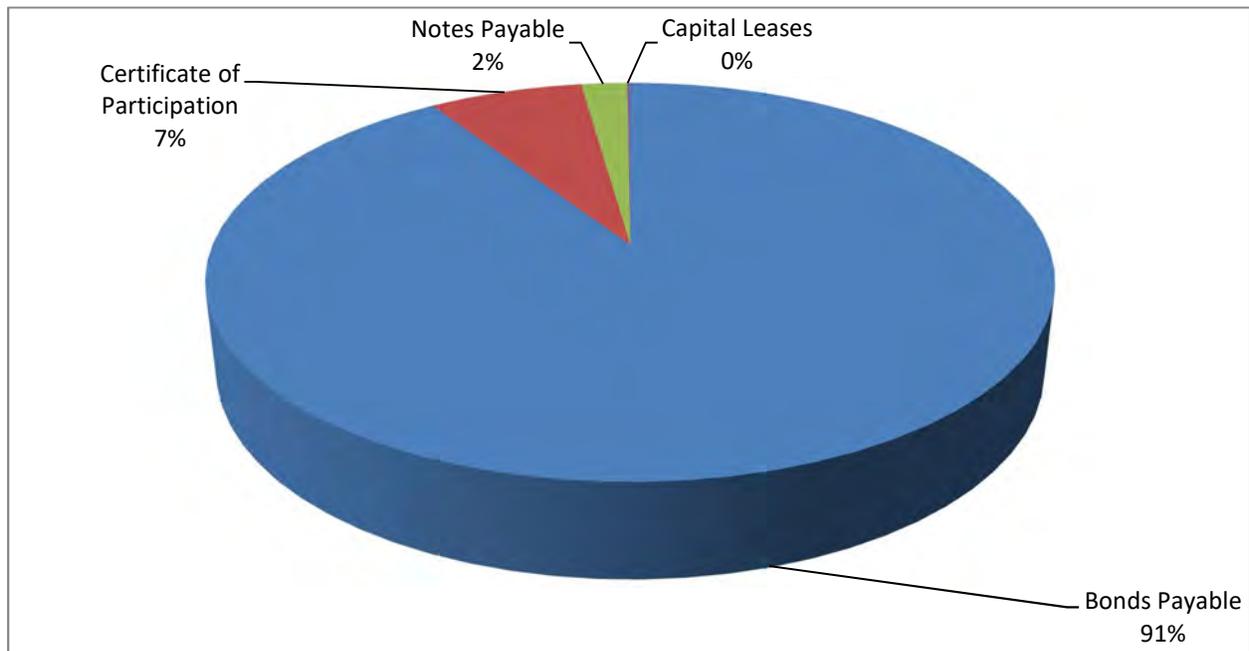
(in thousands)



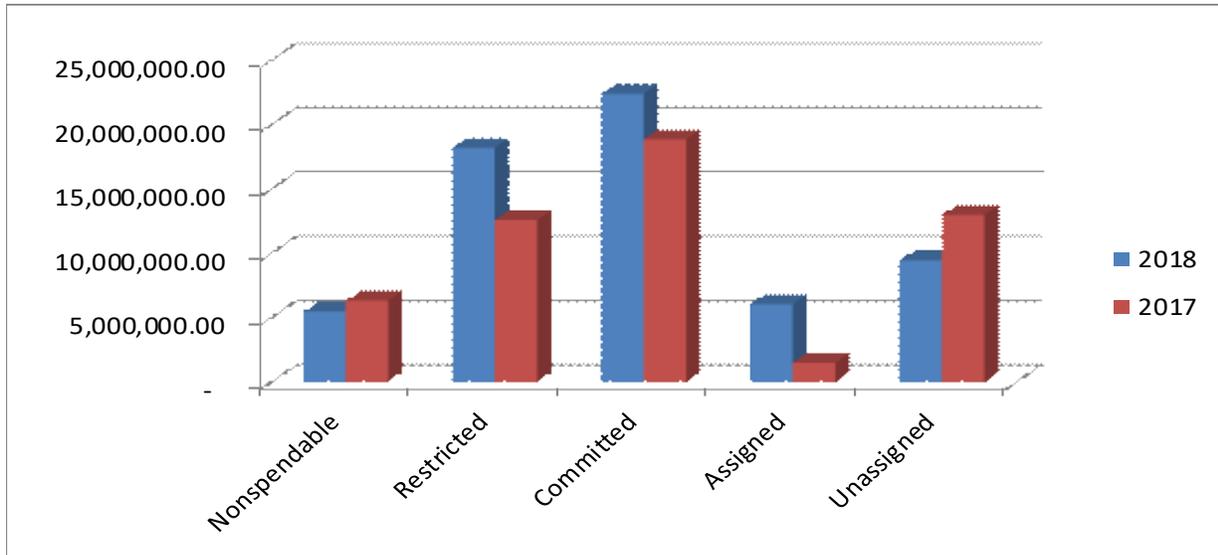
Outstanding Debt as of December 31

(in thousands)

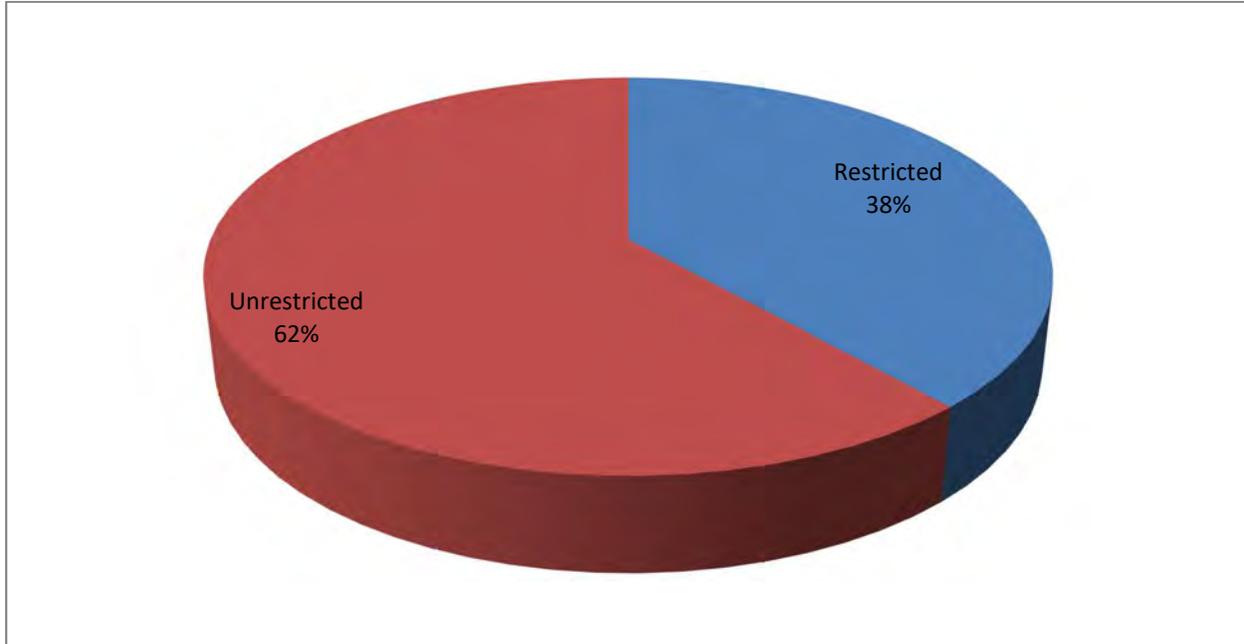
Outstanding Debt by Type as of December 31, 2018

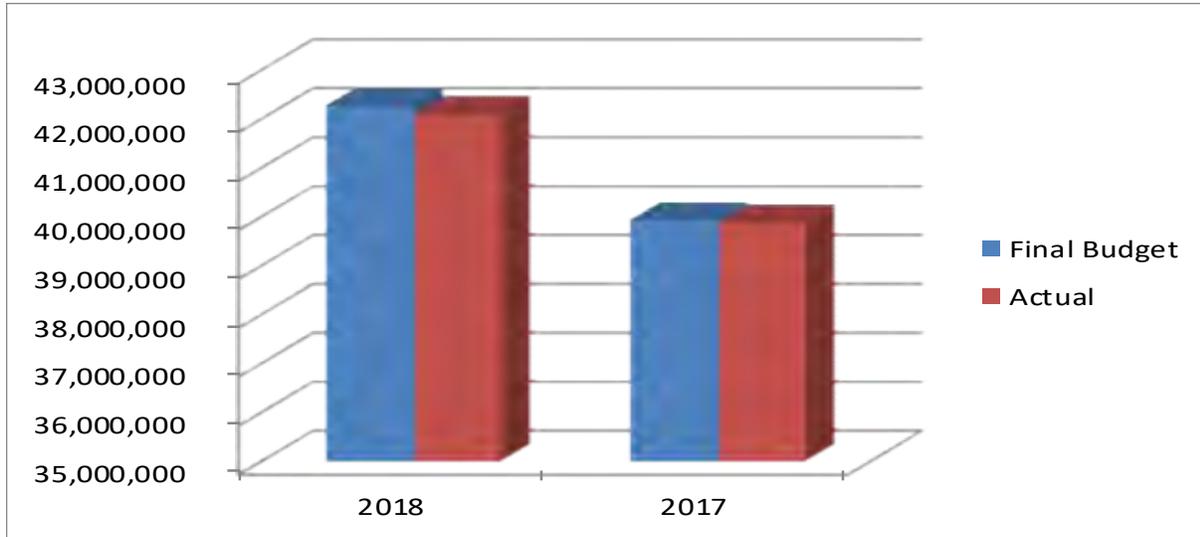


Total Governmental Funds Fund Balance Break-out

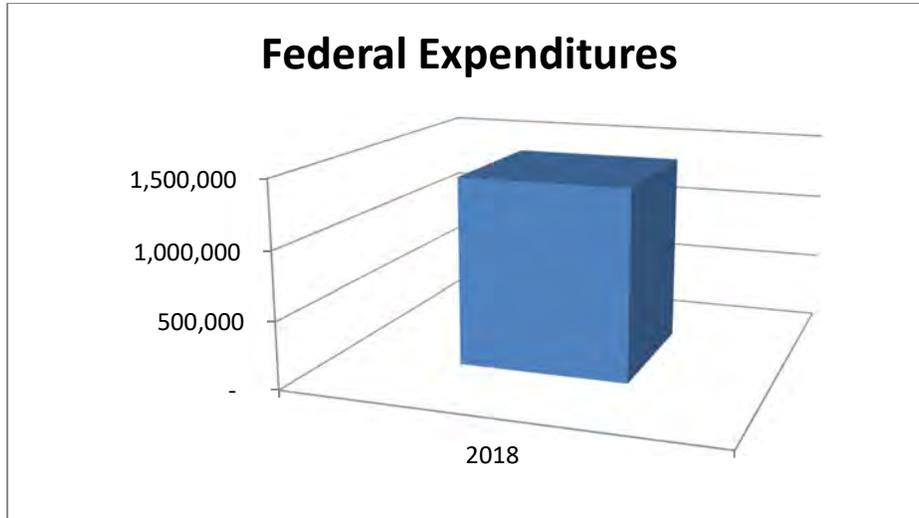


Restricted vs. Unrestricted Fund Balances as of December 31, 2018



Budget to Actual – General Fund Tax Revenue

Single Audit Results



2018	
Number of Major Programs	<ul style="list-style-type: none"> One
Programs Audited	<ul style="list-style-type: none"> Highway Planning and Construction Cluster
Number of Findings	<ul style="list-style-type: none"> Zero

2018	
Classification of Findings	<p>Financial Statement Findings</p> <p><u>Significant Deficiencies</u></p> <ul style="list-style-type: none"> Restatement of Prior Year Financial Statements Accounting for Grants <p>Federal Award Findings</p> <ul style="list-style-type: none"> None

Required Communications – Financial Statement Audit

Area	Comments
<p>Significant Accounting Policies</p>	<ul style="list-style-type: none"> The Town’s significant accounting policies are described in Note 1 of the audited financial statements.
<p>Alternative Accounting Treatments</p> <p>We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America 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 listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> No matters are reportable.
<p>Financial Statement Disclosures</p> <p>The areas listed in the adjacent comments section involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures.</p>	<ul style="list-style-type: none"> Implementation of New GASB Standards. Restatement of Prior Year Financial Statements.
<p>Audit Adjustments</p> <p>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.</p> <p>Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.</p>	<p><u>Proposed Audit Adjustments Recorded</u></p> <ul style="list-style-type: none"> No matters are reportable. <p><u>Proposed Audit Adjustments Not Recorded</u></p> <ul style="list-style-type: none"> <i>Tab 1</i> contains a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements and each respective opinion unit as a whole.

Area	Comments
<p>Auditor’s Judgments About the Quality of the Town’s Accounting Policies</p> <p>During the course of the audit, we made observations regarding the Town’s application of accounting principles listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • Adoption of Governmental Accounting Standards Board Statement (GASB) No. 89, <i>Accounting for Interest Costs Incurred before the End of a Construction Period</i>.
<p>Disagreements with Management</p> <p>Certain matters listed in the adjacent comments section involved disagreements which if not satisfactorily resolved would have caused a modified auditor’s opinion on the financial statements.</p>	<ul style="list-style-type: none"> • No matters are reportable.
<p>Consultation with Other Accountants</p> <p>During our audit we became aware that management had consulted with other accountants about auditing or accounting matters listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • The Plum Creek Water Reclamation Authority (PCWRA) is audited by Haynie & Company and the Castle Rock Downtown Development Authority (DDA) is audited by Marc James & Associates. We placed reliance on the audit of the financial statements of PCWRA and DDA as of December 31, 2018 and for the year then ended.
<p>Significant Issues Discussed with Management</p> <p><u>Prior to Retention</u></p> <p>During our discussion with management prior to our engagement, issues regarding application of accounting principles or auditing standards were discussed and are listed in the adjacent comments section.</p> <p><u>During the Audit Process</u></p> <p>During the audit process, issues were discussed or were the subject of correspondence with management and are listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • No matters are reportable. • Various financial statement presentation items. • GASB 68 calculations and disclosures.

Area	Comments
<p>Difficulties Encountered in Performing the Audit</p> <p>Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the matters listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> No matters are reportable.

Other Material Communications

Other material communications between management and us related to the audit include:

- Management representation letter (*Tab 2*).
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Town as of and for the year ended December 31, 2018, 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, we considered the Town’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 of the Town’s financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material Weakness – 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.

Significant Deficiency – 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.

We observed matters that we consider to be significant deficiencies. Refer to the 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*.

Accounting Pronouncements Requiring Future Adoption

GASB Statement No. 84, *Fiduciary Activities* (GASB 84): GASB 84 establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries. GASB 84 will require entities to re-evaluate the current treatment of defined contribution and deferred compensation plans.

GASB 84 is effective for the Town’s December 31, 2019 financial statements.

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GASB Statement No. 87, *Leases* (GASB 87): GASB 87 provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflows of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for the Town’s December 31, 2020 financial statements, with earlier application encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

* * * * *

GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements (GASB 88): This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

GASB 88 is effective for the Town's December 31, 2019 financial statements.

* * * * *

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61* (GASB 90): An equity interest is a financial interest in a legally separate organization evidenced by ownership of shares of the organizations stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. This Statement modifies guidance for reporting a government's majority equity interest in a legally separate organization and will require organizations to re-evaluate any arrangements presently reported as a joint venture.

GASB 90 is effective for the Town's December 31, 2019 financial statements.

* * * * *

This communication is intended solely for the information and use of management, Members of Town Council, the Honorable Mayor and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 5, 2019

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Governmental Activities (Government-Wide Statements)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	465,665,791	453,101	466,118,892	0.10%
Total Liabilities & Deferred Inflows	(65,060,503)	(439,554)	(65,500,057)	0.68%
Total Net Position	(400,605,288)	(13,547)	(400,618,835)	
General Revenues & Transfers	(71,063,062)		(71,063,062)	
Net Program Revenues/ Expenses	40,383,861	(406,193)	39,977,668	-1.01%
Change in Net Position	(30,679,201)	(406,193)	(31,085,394)	1.32%

Town of Castle Rock

ATTACHMENT

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Business Type Activities (Government-Wide Statements)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	697,045,016	218,789	697,263,805	0.03%
Total Liabilities & Deferred Inflows	(73,795,981)		(73,795,981)	
Total Net Position	(623,249,035)	(218,789)	(623,467,824)	0.04%
General Revenues & Transfers	(3,975,684)		(3,975,684)	
Net Program Revenues/ Expenses	(36,242,267)	(218,789)	(36,461,056)	0.60%
Change in Net Position	(40,217,951)	(218,789)	(40,436,740)	0.54%

Client: Town of Castle Rock
Period Ending: December 31, 2018

Governmental Activities (Government-Wide Statements)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets		Liabilities		General Revenues & Transfers		Net Program Revenues/ Expenses		Net Position		Net Effect on Following Year			
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	Change in Net Position			
														DR	(CR)	DR
Bond premiums and discounts should be reported as due beyond one year. This entry shows the reclassification from current to noncurrent.		F		0		0		0		0		0		0		0
	Due within one year					686,685										
	Due beyond one year					(686,685)										
To show effect of changes between draft and final financial amounts related to the joint venture not recorded by management.		F		218,789		0		0		(218,789)		0		218,789		(218,789)
	Investment in joint venture			218,789												(218,789)
	Gain/loss on equity in joint venture									(50,237)				50,237		
	Operations									(168,552)				168,552		
Total passed adjustments				218,789		0		0		(218,789)		0		218,789		(218,789)
											Impact on Change in Net Position		(218,789)			
											Impact on Net Position		(218,789)			

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Transportation Fund (120)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	16,259,234	513,101	16,772,335	3.16%
Total Liabilities & Deferred Inflows	(4,321,179)	(513,101)	(4,834,280)	11.87%
Total Fund Balance	(11,938,055)		(11,938,055)	
Revenues	(25,938,998)		(25,938,998)	
Expenditures	21,348,257		21,348,257	
Change in Fund Balance	(2,706,644)		(2,706,644)	

Client: Town of Castle Rock
Period Ending: December 31, 2018

Transportation Fund (120)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred		Liabilities &		Revenues			Expenditures			Fund Balance		Net Effect on Following Year	
			Outflows		Deferred Inflows		Revenues		Expenditures		Fund Balance		Change in Fund	Fund		
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	Balance	Balance		
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
To recognize cash received prior to year end related to traffic signal deposit not recorded as of December 31, 2018		F		60,000		(60,000)		0		0		0		0		0
	Cash			60,000												
	Unearned Revenue					(60,000)										
To record grant receivable not received within available period		F		453,101		(453,101)		0		0		0		0		0
	Accounts receivable			453,101												
	Deferred inflows - unavailable resources					(453,101)										
Total passed adjustments				<u>513,101</u>		<u>(513,101)</u>		<u>0</u>		<u>0</u>		<u>0</u>		<u>0</u>		<u>0</u>
												Impact on Change in Fund Balance		0		
												Impact on Fund Balance		0		

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Community Center Fund (216)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	2,325,468		2,325,468	
Non-Current Assets & Deferred Outflows	4,933,545		4,933,545	
Current Liabilities	(345,464)	(33,227)	(378,691)	9.62%
Non-Current Liabilities & Deferred Inflows	(78,401)		(78,401)	
Current Ratio	6.731		6.141	-8.77%
Total Assets & Deferred Outflows	7,259,013		7,259,013	
Total Liabilities & Deferred Inflows	(423,865)	(33,227)	(457,092)	7.84%
Total Net Position	(6,835,148)	33,226	(6,801,922)	-0.49%
Operating Revenues	(3,908,721)		(3,908,721)	
Operating Expenses	7,057,607	19,784	7,077,391	0.28%
Nonoperating (Revenues) Exp	(3,291,509)		(3,291,509)	
Change in Net Position	(23,274)	19,784	(3,490)	-85.00%

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Water (210)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	22,240,436		22,240,436	
Non-Current Assets & Deferred Outflows	203,932,967		203,932,967	
Current Liabilities	(3,823,494)	61,596	(3,761,898)	-1.61%
Non-Current Liabilities & Deferred Inflows	(8,695,099)	(130,525)	(8,825,624)	1.50%
Current Ratio	5.817		5.912	1.63%
Total Assets & Deferred Outflows	226,173,403		226,173,403	
Total Liabilities & Deferred Inflows	(12,518,593)	(68,929)	(12,587,522)	0.55%
Total Net Position	(213,654,810)	68,929	(213,585,881)	-0.03%
Operating Revenues	(16,186,541)		(16,186,541)	
Operating Expenses	15,231,420	2,644	15,234,064	0.02%
Nonoperating (Revenues) Exp	46		46	
Change in Net Position	(9,035,891)	2,644	(9,033,247)	-0.03%

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Water Resources (211)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	68,575,105		68,575,105	
Non-Current Assets & Deferred Outflows	190,967,210		190,967,210	
Current Liabilities	(3,121,735)	533,353	(2,588,382)	-17.09%
Non-Current Liabilities & Deferred Inflows	(50,217,907)	(533,353)	(50,751,260)	1.06%
Current Ratio	21.967		26.493	20.60%
Total Assets & Deferred Outflows	259,542,315		259,542,315	
Total Liabilities & Deferred Inflows	(53,339,642)		(53,339,642)	
Total Net Position	(206,202,673)		(206,202,673)	
Operating Revenues	(11,459,270)		(11,459,270)	
Operating Expenses	7,204,113		7,204,113	
Nonoperating (Revenues) Exp	(421,624)		(421,624)	
Change in Net Position	(21,584,249)		(21,584,249)	

Client: Town of Castle Rock
Period Ending: December 31, 2018

Water Resources (211)
SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred Outflows				Liabilities & Deferred Inflows				Operating				Net Effect on Following Year					
			Current		Non-Current		Current		Non-Current		Revenues		Expenses		Nonoperating (Revenues) Exp		Net Position		Change in Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Bond premiums and discounts should be reported as due beyond one year. This entry shows the reclassification from current to noncurrent.		F	0	0	533,353	(533,353)					0	0	0	0			0	0		
	Revenue bonds payable - current				533,353															
	Revenue bonds net of unamortized premiums (discount)				(533,353)															
Total passed adjustments			0	0	533,353	(533,353)					0	0	0	0			0	0		
							Impact on Change in Net Position				0									
							Impact on Net Position				0									

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Wastewater (213)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	20,605,103		20,605,103	
Non-Current Assets & Deferred Outflows	90,624,118	218,789	90,842,907	0.24%
Current Liabilities	(1,147,099)		(1,147,099)	
Non-Current Liabilities & Deferred Inflows	(1,299,320)		(1,299,320)	
Current Ratio	17.963		17.963	
Total Assets & Deferred Outflows	111,229,221	218,789	111,448,010	0.20%
Total Liabilities & Deferred Inflows	(2,446,419)		(2,446,419)	
Total Net Position	(108,782,802)	(218,789)	(109,001,591)	0.20%
Operating Revenues	(11,236,722)		(11,236,722)	
Operating Expenses	22,572,205	(168,552)	22,403,653	-0.75%
Nonoperating (Revenues) Exp	(560,958)	(50,237)	(611,195)	8.96%
Change in Net Position	1,762,764	(218,789)	1,543,975	-12.41%

Client: Town of Castle Rock
Period Ending: December 31, 2018

Wastewater (213)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred Outflows				Liabilities & Deferred Inflows				Net Effect on Following Year					
			Current		Non-Current		Current		Non-Current		Operating Revenues	Operating Expenses	Nonoperating (Revenues) Exp	Net Position	Change in Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
To show effect of changes between draft and final financial amounts related to the joint venture not recorded by management.		F	0	218,789	0	0	0	(168,552)	(50,237)	0	218,789	(218,789)				
	Investment in joint venture			218,789								(218,789)				
	Gain/loss on equity PCWA								(50,237)		50,237					
	Operations							(168,552)			168,552					
Total passed adjustments			0	218,789	0	0	0	(168,552)	(50,237)	0	218,789	(218,789)				
										Impact on Change in Net Position		(218,789)				
										Impact on Net Position		(218,789)				

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Golf (214)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	1,703,583		1,703,583	
Non-Current Assets & Deferred Outflows	7,779,754		7,779,754	
Current Liabilities	(592,545)	(17,984)	(610,529)	3.04%
Non-Current Liabilities & Deferred Inflows	(4,204,476)		(4,204,476)	
Current Ratio	2.875		2.790	-2.96%
Total Assets & Deferred Outflows	9,483,337		9,483,337	
Total Liabilities & Deferred Inflows	(4,797,021)	(17,984)	(4,815,005)	0.37%
Total Net Position	(4,686,316)	17,984	(4,668,332)	-0.38%
Operating Revenues	(3,132,347)		(3,132,347)	
Operating Expenses	2,690,141	2,256	2,692,397	0.08%
Nonoperating (Revenues) Exp	154,855		154,855	
Change in Net Position	(359,839)	2,256	(357,583)	-0.63%

Client: Town of Castle Rock
Period Ending: December 31, 2018

Golf (214)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred Outflows				Liabilities & Deferred Inflows				Operating				Net Effect on Following Year					
			Current		Non-Current		Current		Non-Current		Revenues		Expenses		Nonoperating (Revenues) Exp		Net Position		Change in Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Turnaround effect - To reverse 2017 estimate to accrue taxes and pension contributions related to accrued compensated absences		J	0	0	0	0	0	0	0	0	(15,728)	0	15,728	0	0	0	0	0	0	
	Beginning Net Position												15,728							
	Expense										(15,728)									
To accrue taxes and pension contributions related to accrued compensated absences per GASB 16		J	0	0	(17,984)	0	0	0	0	0	17,984	0	0	(17,984)	0	0	(17,984)	17,984		
	Accrued Leave				(17,984)														17,984	
	Expenses										17,984						(17,984)			
Total passed adjustments			0	0	(17,984)	0	0	0	0	0	2,256	0	15,728	(17,984)	17,984					
															Impact on Change in Net Position		2,256			
															Impact on Net Position		17,984			

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

Development Services (215)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	3,780,697		3,780,697	
Non-Current Assets & Deferred Outflows	4,986,864		4,986,864	
Current Liabilities	(305,754)	(28,437)	(334,191)	9.30%
Non-Current Liabilities & Deferred Inflows	(82,205)		(82,205)	
Current Ratio	12.365		11.313	-8.51%
Total Assets & Deferred Outflows	8,767,561		8,767,561	
Total Liabilities & Deferred Inflows	(387,959)	(28,437)	(416,396)	7.33%
Total Net Position	(8,379,602)	28,437	(8,351,165)	-0.34%
Operating Revenues	(6,492,172)		(6,492,172)	
Operating Expenses	5,694,583	2,644	5,697,227	0.05%
Nonoperating (Revenues) Exp	(65,009)		(65,009)	
Change in Net Position	(834,210)	2,644	(831,566)	-0.32%

Client: Town of Castle Rock
Period Ending: December 31, 2018

Development Services (215)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred Outflows				Liabilities & Deferred Inflows				Operating				Net Effect on Following Year					
			Current		Non-Current		Current		Non-Current		Revenues		Expenses		Nonoperating (Revenues) Exp		Net Position		Change in Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Turnaround effect - To reverse 2017 estimate to accrue taxes and pension contributions related to accrued compensated absences		F	0	0	0	0	0	0	0	0	(25,793)	0	25,793	0	0	0	0	0	0	
	Beginning Net Position												25,793							
	Expense										(25,793)									
To accrue taxes and pension contributions related to accrued compensated absences per GASB 16		F	0	0	(28,437)	0	0	0	0	0	28,437	0	0	(28,437)	0	0	(28,437)	28,437		
	Accrued Leave				(28,437)														28,437	
	Expenses										28,437						(28,437)			
Total passed adjustments			0	0	(28,437)	0	0	0	0	0	2,644	0	25,793	(28,437)	0	28,437				
													Impact on Change in Net Position		2,644					
													Impact on Net Position		28,437					



Finance Department

June 5, 2019

BKD, LLP

Certified Public Accountants
1801 California Street
Denver, Colorado 80202

We are providing this letter in connection with your audits of our financial statements and of our compliance with requirements applicable to each of our major federal awards programs as of and for the year ended December 31, 2018. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated November 1, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of meetings of the governing body held through the date of this letter.
 - (e) All significant contracts and grants.



Finance Department

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position/fund balance.
7. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
8. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town received in communications from employees, customers, regulators, suppliers or others.
10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.
11. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial statements.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.



Finance Department

- (d) Events occurring subsequent to the statement of net position/balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Town is contingently liable.
12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
13. We have no reason to believe the Town owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
15. Adequate provisions and allowances have been accrued for any material losses from:
- (a) Uncollectible receivables.
 - (b) Reducing obsolete or excess inventories to estimated net realizable value.
 - (c) Sales/service commitments, including those unable to be fulfilled.
 - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
16. Except as disclosed in the financial statements, we have:
- (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.



Finance Department

17. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
18. We have reviewed GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and have determined that the Town does not have any environmental liabilities nor have any obligating events occurred that would require us to record a liability.
19. The Town does not offer any other postemployment benefits as defined under GASB 75: *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and we do not believe a liability is required to be recorded.
20. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.
21. With regard to deposit and investment activities:
 - (a) All deposit and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
22. With respect to any nonattest services you have provided us during the year, including assistance with formatting, printing and binding the Town's single audit reports and data collection form:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
23. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.



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24. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
25. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
26. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
27. We have a process to track the status of audit findings and recommendations.
28. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
29. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
30. With regard to federal awards programs:
 - (a) We have identified in the schedule of expenditures of federal awards all assistance provided (either directly or passed through other entities) by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations or in any other form.
 - (b) We have identified the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; equipment and real property management; matching, level of effort, earmarking; period of performance of federal funds; procurement and suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to each of our federal awards programs. We have



Finance Department

identified to you our interpretation of any applicable compliance requirements subject to varying interpretations.

- (c) We are responsible for complying, and have complied, with the requirements of Uniform Guidance.
- (d) We are responsible to understand and comply with the requirements of federal statutes, regulations and the terms and conditions of federal awards related to each of our federal awards programs and have disclosed to you any and all instances of noncompliance with those requirements occurring during the period of your audit or subsequent thereto to the date of this letter of which we are aware. Except for any instances of noncompliance we have disclosed to you, we believe the Town has complied with all applicable compliance requirements.
- (e) We are responsible for establishing and maintaining effective internal control over compliance to provide reasonable assurance we have administered each of our federal awards programs in compliance with federal statutes, regulations and the terms and conditions of the federal awards.
- (f) We have made available to you all federal awards including amendments, if any and any other correspondence or documentation relevant to each of our federal awards programs and to our compliance with applicable requirements of those programs.
- (g) The information presented in federal awards program financial reports and claims for advances and reimbursements is supported by the books and records from which our financial statements have been prepared.
- (h) The costs charged to federal awards are in accordance with applicable cost principles.
- (i) The reports provided to you related to federal awards programs are true copies of reports submitted or electronically transmitted to the federal awarding agency, the applicable payment system or pass-through entity in the case of a subrecipient.
- (j) Amounts claimed or used for matching were determined in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) regarding cost principles.
- (k) We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the applicable compliance requirements for each of our federal awards programs, including any communications received from the end of the period of your audit through the date of this letter.
- (l) We have identified to you any previous compliance audits, attestation engagements and internal or external monitoring related to the objectives of your compliance



Finance Department

audit, including findings received and corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other monitoring.

- (m) Except as described in the schedule of findings and questioned costs, we are in agreement with the findings contained therein and our views regarding any disagreements with such findings are consistent, as of the date of this letter, with the description thereof in that schedule.
 - (n) We are responsible for taking corrective action on any audit findings and have developed a corrective action plan that meets the requirements of Uniform Guidance.
 - (o) The summary schedule of prior audit findings correctly states the status of all audit findings of the prior audit's schedule of findings and questioned costs as of the date of this letter.
 - (p) The reporting package does not contain any protected personally identifiable information.
31. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of net position/balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
32. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
33. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, budgetary comparisons, and pension information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.



Finance Department

34. With regard to supplementary information:
- (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
 - (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
 - (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
 - (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.
35. Due care has been exercised in the preparation of the Introductory and Statistical and Other Schedules Sections of the comprehensive annual financial report and we are unaware of any information in those sections that is materially inconsistent with the information reported in the basic financial statements.

A handwritten signature in black ink, appearing to read "David Corliss".

David Corliss, City Manager

A handwritten signature in black ink, appearing to read "Trish Muller".

Trish Muller, Finance Director

A handwritten signature in blue ink, appearing to read "Christie Guthrie".

Christie Guthrie, Accounting Manager