

Town of Castle Rock, Colorado

Report to the Honorable Mayor and Members of Town Council

July 14, 2020

Results of the 2019 financial statement audit, selected ratios, internal control matters and other required communications.

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July 14, 2020

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, 2019. 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, 2019, 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 governmental entities.

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
Managing 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:

Opinion Unit	Risk Area	Results
All	<ul style="list-style-type: none">Management override of controls	<ul style="list-style-type: none">No matters are reportable.
All	<ul style="list-style-type: none">Revenue recognition	➡ No matters are reportable.
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.
Governmental and business-type activities, and major enterprise funds	<ul style="list-style-type: none">Long-term debt	➡ No matters are reportable.
<ul style="list-style-type: none">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
- Valuation of contributed capital
- Net pension liabilities (assets) and related deferred outflows of resources and deferred inflows of resources
- Claims payable

Opinions

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, 2019, are fairly presented, in all material respects.

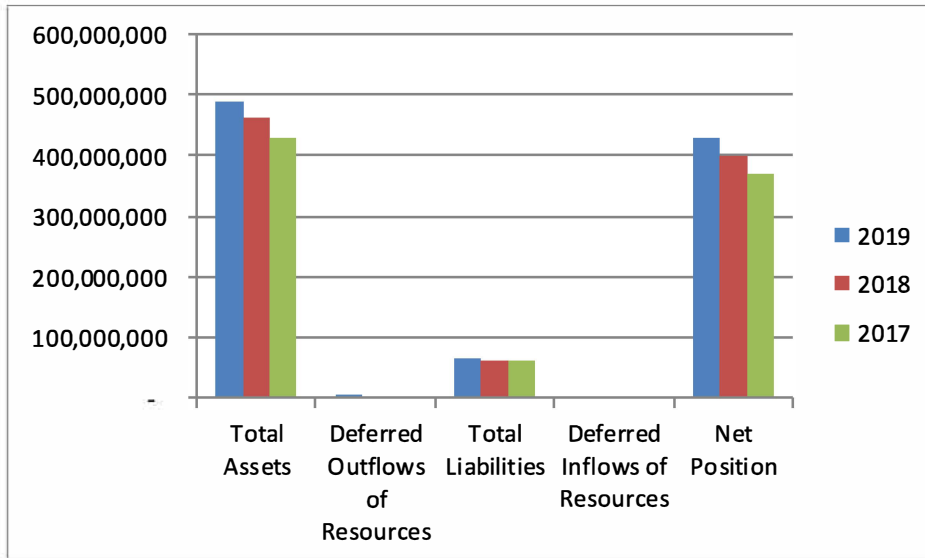
Requirements Under OMB Uniform Guidance

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

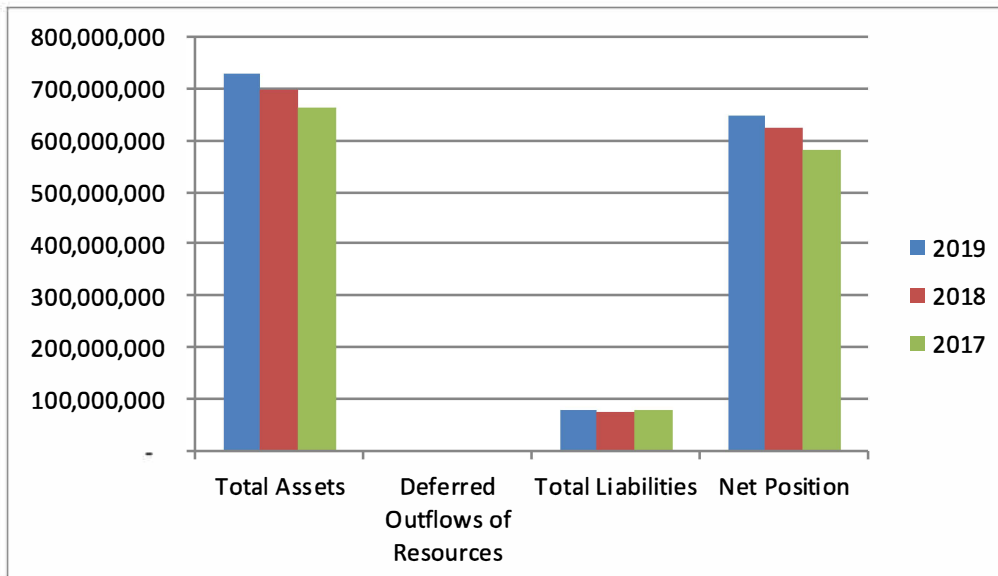
- Schedule of Expenditures of Federal Awards
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance for Each Major Program; Report on Internal 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

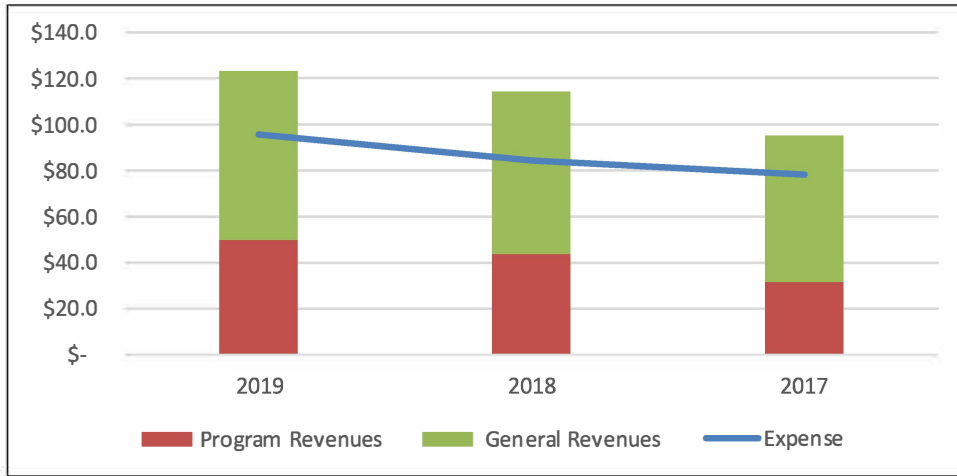


Business-type Activities



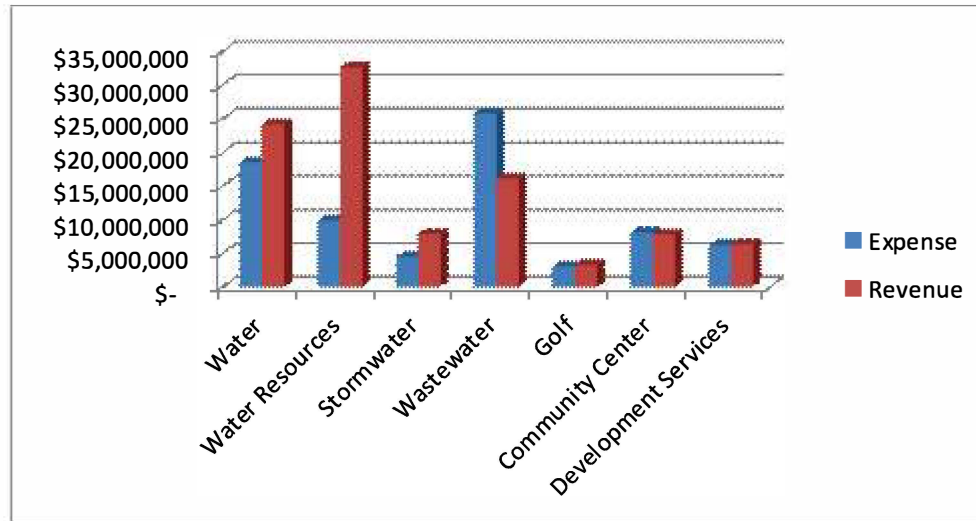
Expenses and Program Revenues – Governmental Activities

(in millions)

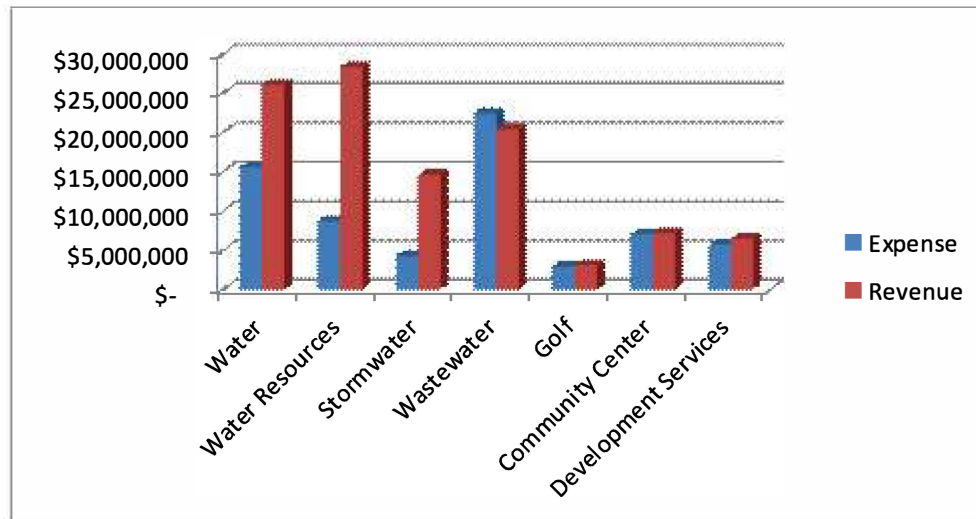


Expenses and Program Revenues – Business-type Activities

2019



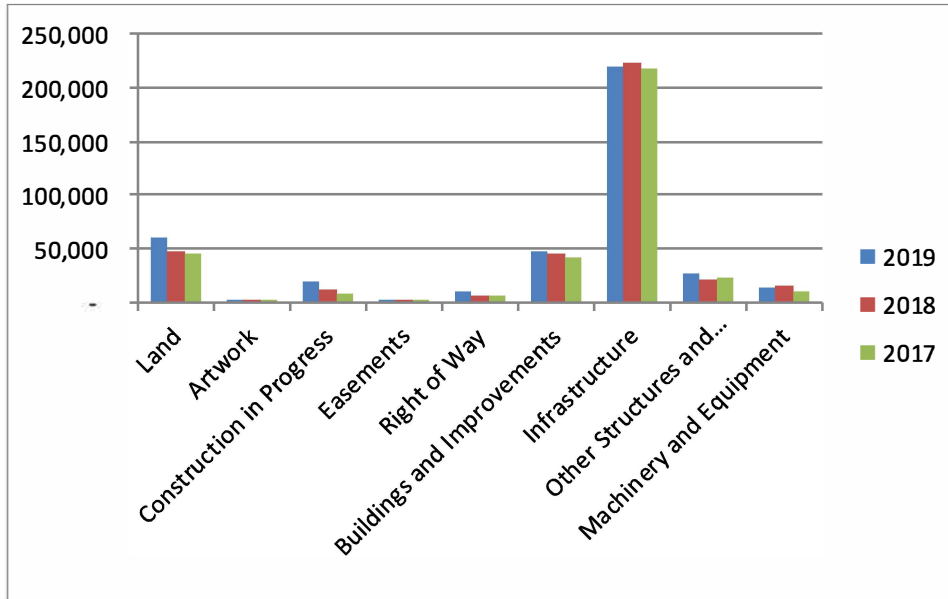
2018



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

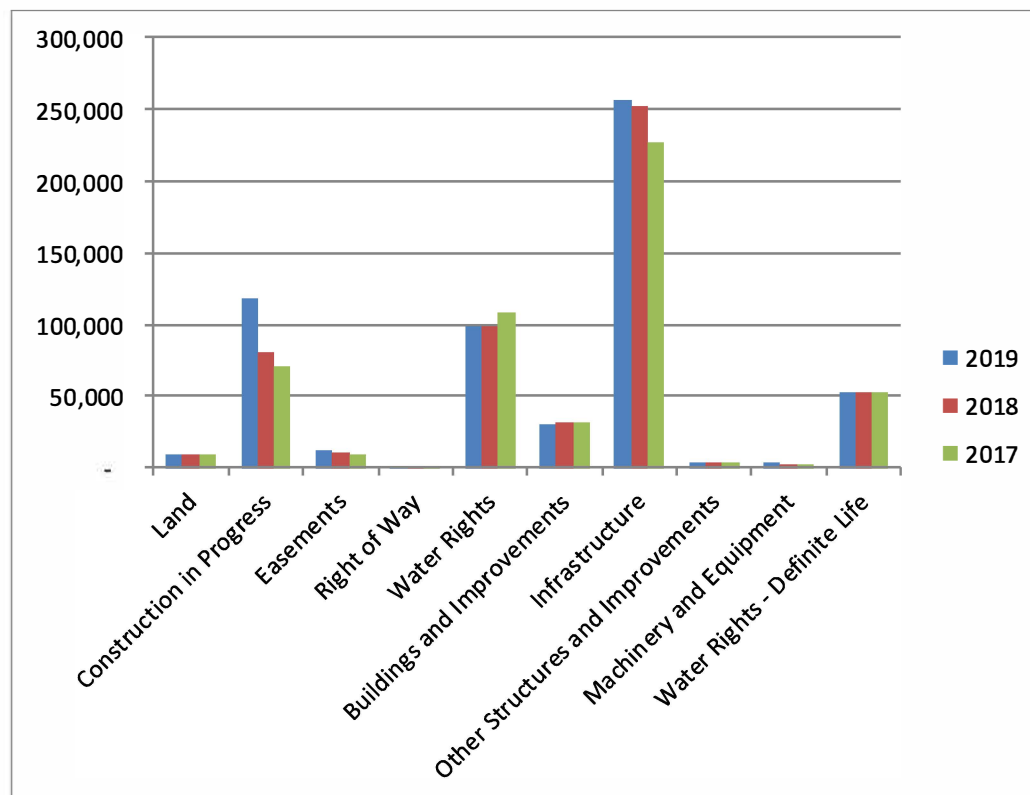
Capital Assets – Net of Accumulated Depreciation (in thousands)

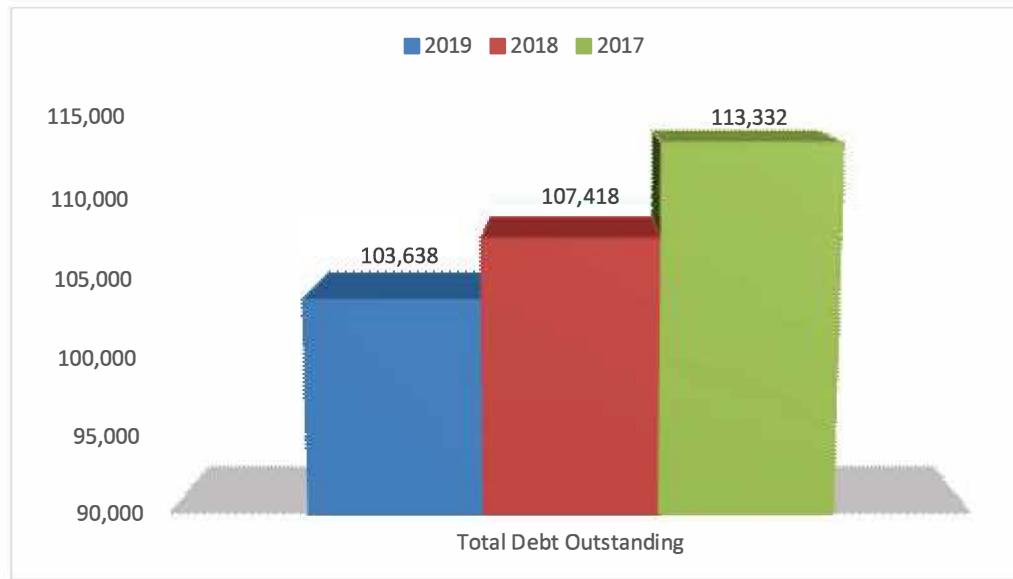
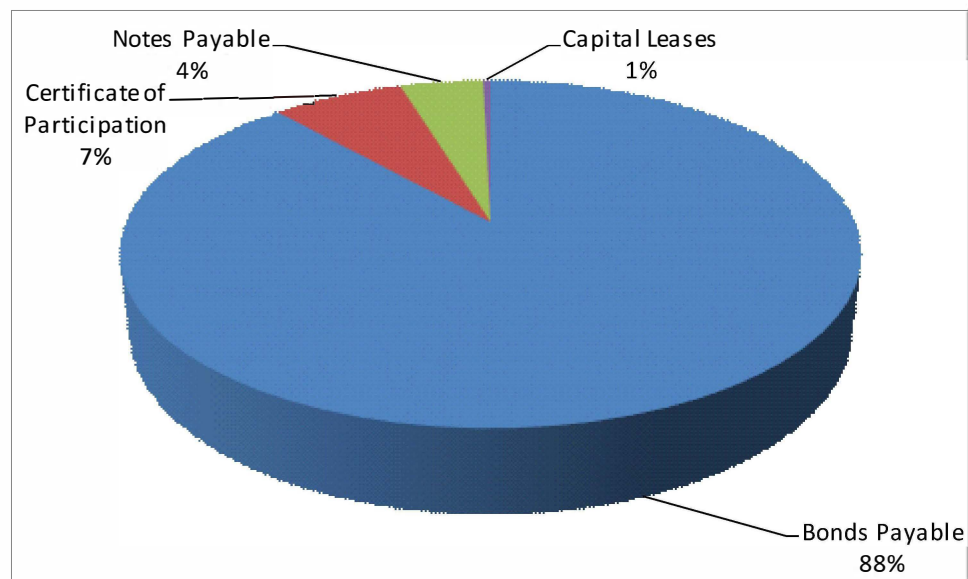
Governmental Activities

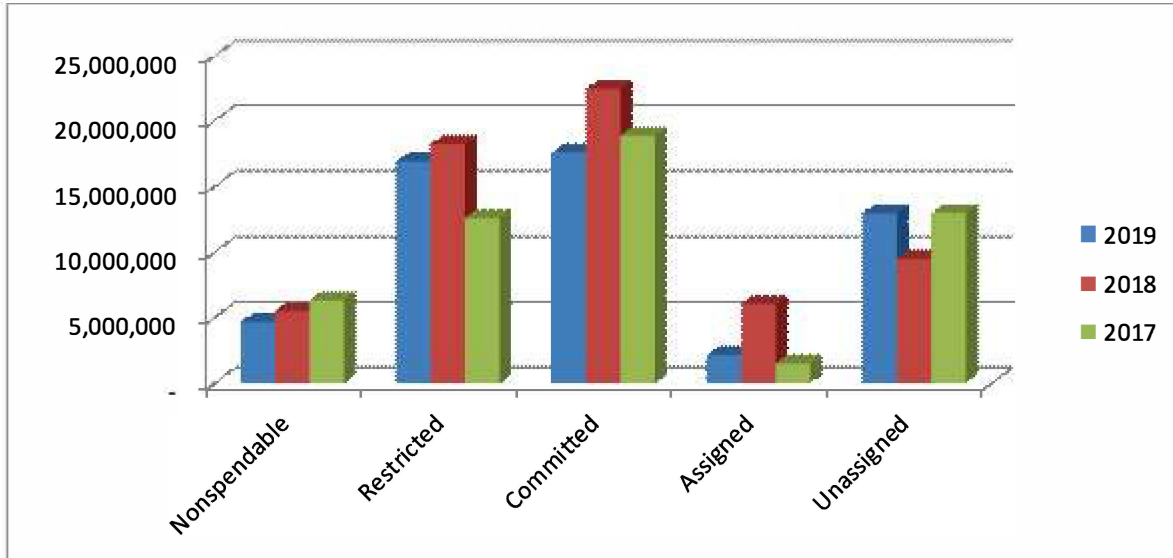
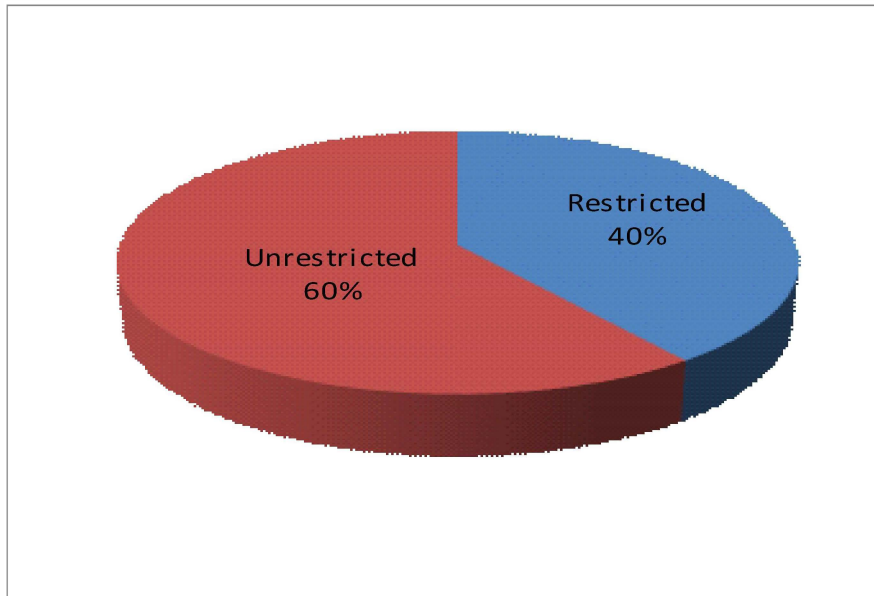


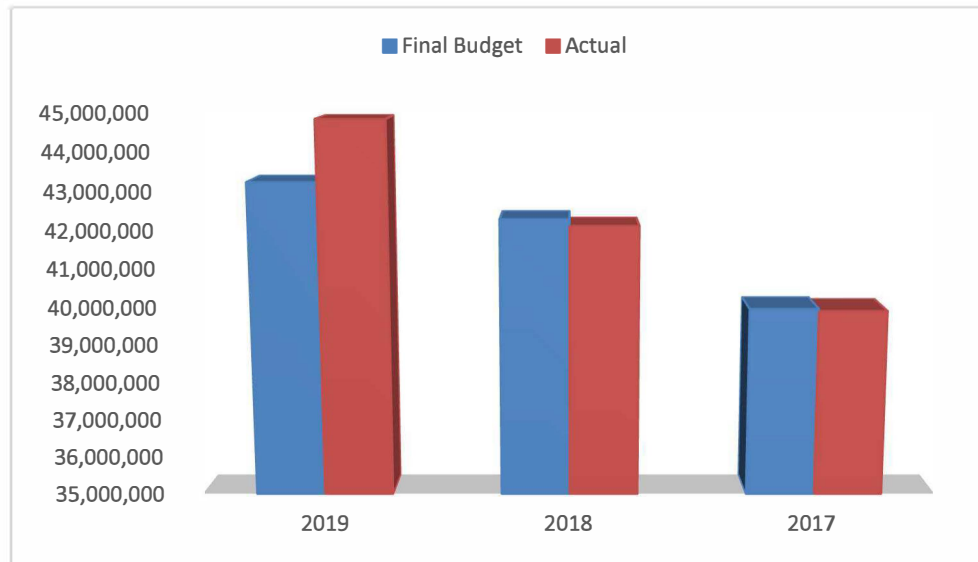
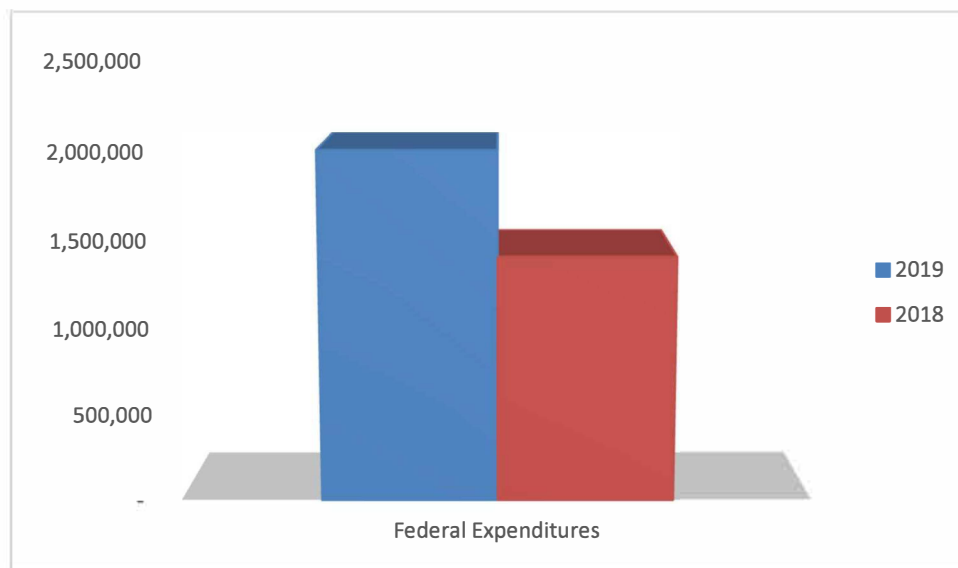
Capital Assets – Net of Accumulated Depreciation (in thousands)

Business-type Activities



Outstanding Debt as of December 31 (in thousands)**Outstanding Debt by Type as of December 31, 2019:**

Total Governmental Funds Fund Balance Break-Out**Restricted vs Unrestricted Fund Balances as of December 31, 2019:**

Budget to Actual – General Fund Tax Revenue**Single Audit Results**

	2019	2018
Number of Major Programs	<ul style="list-style-type: none"> One 	<ul style="list-style-type: none"> One
Programs Audited	<ul style="list-style-type: none"> Highway Planning and Construction Cluster 	<ul style="list-style-type: none"> Highway Planning and Construction Cluster
Number of Findings	<ul style="list-style-type: none"> Zero 	<ul style="list-style-type: none"> Two
Classification of Findings	<p>Financial Statement Findings</p> <ul style="list-style-type: none"> None <p>Federal Award Findings</p> <ul style="list-style-type: none"> None 	<p>Financial Statement Findings</p> <p>Significant Deficiencies</p> <ul style="list-style-type: none"> Restatement of Prior Year Financial Statements Accounting for Grants <p>Federal Award Findings</p> <p>None</p>

Required Communications

Generally accepted auditing standards require the auditor to provide to those charged with governance additional information regarding the scope and results of the audit that may assist you in overseeing management's financial reporting and disclosure process. Below, we summarize these required communications.

Auditor's Responsibility Under 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 and U.S. Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

An audit performed 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 and U.S. Office of Management and Budget (OMB) *Uniform Guidance* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on a major federal program occurred. In performing auditing procedures, we establish scopes of audit tests in

relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this communication or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Area	Comments
<p>Significant Accounting Policies</p> <p>Significant accounting policies are described in Note 1 of the financial statements.</p>	<p>With respect to new accounting standards adopted during the year, unusual accounting policies or accounting methods used by the Town for unusual transactions, we call to your attention the following topics:</p> <ul style="list-style-type: none"> The Town adopted Governmental Accounting Standards Board (GASB) Statement No. 95, <i>Postponement of the Effective Dates of Certain Authoritative Guidance</i>, which allows the Town to defer implementation of GASB Statement No. 83, <i>Certain Asset Retirement Obligations</i>, GASB Statement No. 84, <i>Fiduciary Activities</i>, and GASB Statement No. 88, <i>Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements</i> to 2020.
<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.

Area	Comments
<p>Management Judgments & Accounting Estimates</p> <p>Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Areas involving significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates are listed in the adjacent comments section.</p>	<p>Please see page 3 for significant estimates utilized by the Town.</p>
<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"> • Subsequent events • Related-party transactions • Implementation of New GASB Standards
<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. 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>Areas in which adjustments were proposed include:</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> <p><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 as a whole.</p>
<p>Auditor's Judgments About the Quality of Town's Accounting Policies</p> <p>During the course of the audit, we made observations regarding Town's application of accounting principles listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • No matters are reportable.

Area	Comments
<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, 2019 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. Delay of GASB standard implementations that were originally planned. Impact of COVID-19, subsequent event disclosure.

Area	Comments
Difficulties Encountered in Performing the Audit 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.	<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

Future Accounting Pronouncements

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.

Subsequent to the issuance of GASB 95, GASB 84 is effective for the City's December 31, 2020 financial statements.

* * * * *

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 inflow 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 City's December 31, 2022 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 City's December 31, 2020 financial statements.

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GASB Statement No. 91, *Conduit Debt Obligations* (GASB 91): GASB 91 provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures.

GASB 91 is effective for the City's December 31, 2022 financial statements.

* * * * *

GASB Statement No. 95, *Postponement of Effective dates of Certain Authoritative Guidance* (GASB 95): In response to the challenges arising from COVID-19, on May 7, 2020 GASB approved GASB 95. GASB approved an 18-month postponement for Statement 87, *Leases*. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later have a 1-year postponement. This change is effective immediately. Early application is still encouraged. The new effective dates are listed below:

- Statement 83—reporting periods beginning after June 15, 2019
- Statement 84 and Implementation Guide 2019-2—reporting periods beginning after December 15, 2019
- Statement 87 and Implementation Guide 2019-3—fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Statement 88—reporting periods beginning after June 15, 2019
- Statement 89—reporting periods beginning after December 15, 2020
- Statement 90—reporting periods beginning after December 15, 2019



2019 Audit Results

- Statement 91—reporting periods beginning after December 15, 2021
- Statement 92, paragraphs 6 and 7—fiscal years beginning after June 15, 2021
- Statement 92, paragraphs 8, 9 and 12—reporting periods beginning after June 15, 2021
- Statement 92, paragraph 10—government acquisitions occurring in reporting periods beginning after June 15, 2021
- Statement 93, paragraphs 13 and 14—fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Implementation Guide 2017-3, Questions 4.484 and 4.491—the first reporting period in which the measurement date of the (collective) net OPEB liability is on or after June 15, 2019
- Implementation Guide 2017-3, Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245 and 5.1–5.4—actuarial valuations as of December 15, 2018, or later
- Implementation Guide 2018-1—reporting periods beginning after June 15, 2019
- Implementation Guide 2019-1—reporting periods beginning after June 15, 2020

GASB also has an Emergency Toolbox available to help stakeholders quickly identify the GASB's authoritative guidance that could be relevant to the current circumstances.

* * * * *

This communication is intended solely for the information and use of management, the Honorable Mayor and Members of Town Council, 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

July 14, 2020

Town of Castle Rock
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect 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	494,838,520		494,838,520	
Total Liabilities & Deferred Inflows	(67,079,301)		(67,079,301)	
Total Net Position	(427,759,219)		(427,759,219)	
General Revenues & Transfers	(73,142,843)		(73,142,843)	
Net Program Revenues/ Expenses	45,988,912	13,547	46,002,459	0.03%
Change in Net Position	(27,153,931)	13,547	(27,140,384)	-0.05%

Client: Town of Castle Rock
Period Ending: December 31, 2019

Governmental Activities (Government-Wide Statements)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

												Net Effect on Following Year				
Description	Financial Statement Line Item	Factual (F), Judgmental (J) or Projected (P)	Assets		Liabilities		General Revenues & Transfers		Net Program Revenues/ Expenses		Net Position		Change in Net Position		Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Turnaround Effect - To accrue taxes and pension contributions related to accrued compensated absences per GASB 16		J		0		0		0		(439,554)		439,554		0		0
	Net Position											439,554				
	Expense									(439,554)						
Turnaround Effect - To recognize revenue for grant receivable not recorded in prior year.		F		0		0		0		453,101		(453,101)		0		0
	Net Position											(453,101)				
	Grant Revenue									453,101						
Total passed adjustments			0		0		0		13,547		(13,547)		0		0	

Town of Castle Rock
ATTACHMENT

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

Business Type Activities (Government-Wide Statements)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	728,250,569		728,250,569	
Total Liabilities & Deferred Inflows	(80,868,448)		(80,868,448)	
Total Net Position	(647,382,121)		(647,382,121)	
General Revenues & Transfers	(5,574,717)		(5,574,717)	
Net Program Revenues/ Expenses	(18,558,369)	218,789	(18,339,580)	-1.18%
Change in Net Position	(24,133,086)	218,789	(23,914,297)	-0.91%

Client: Town of Castle Rock
Period Ending: December 31, 2019

Governmental Activities (Government-Wide Statements)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J) or 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		Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	DR	(CR)	DR	(CR)
Turnaround Effect - To show effect of changes between draft and final financial amounts related to the joint venture not recorded by management.		F		0		0		0		218,789	(218,789)		0		0
	Net Position										(218,789)				
	Gain/loss on Equity in Joint Venture									50,237					
	Operations									168,552					
Total passed adjustments				0		0		0		218,789	(218,789)		0		0
											Impact on Change in Net Position		218,789		
											Impact on Net Position		0		

Town of Castle Rock
ATTACHMENT

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

General Fund

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	40,790,218		40,790,218	
Total Liabilities & Deferred Inflows	(11,243,298)	100,000	(11,143,298)	-0.89%
Total Fund Balance	(29,546,920)	(100,000)	(29,646,920)	0.34%
Revenues	(54,114,027)		(54,114,027)	
Expenditures	57,682,051	(100,000)	57,582,051	-0.17%
Change in Fund Balance	(2,750,519)	(100,000)	(2,850,519)	3.64%

Client: Town of Castle Rock
Period Ending: December 31, 2019

General Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

										Net Effect on Following Year						
		Factual (F), Judgmental (J) or Projected (P)	Assets & Deferred		Liabilities &		Revenues		Expenditures		Fund Balance		Change in Fund Balance		Fund Balance	
			Outflows		Deferred Inflows											
Description	Financial Statement Line Item		DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
To adjust Encore liability and restricted cash per final agreement.		F	0	100,000		0		(100,000)		0		100,000		(100,000)		
	Due to Developers / Encore				100,000									(100,000)		
	Other Expenses							(100,000)				100,000				
	Restricted Cash / Contra - Restricted Cash		100,000													
	Restricted Cash / Restricted Cash - Encore		(100,000)													
Total passed adjustments			0	100,000		0		(100,000)		0		100,000		(100,000)		
Impact on Change in Fund Balance												(100,000)				
Impact on Fund Balance												(100,000)				

Town of Castle Rock

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect 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	2,179,592		2,179,592	
Non-Current Assets & Deferred Outflows	4,783,747		4,783,747	
Current Liabilities	(296,166)		(296,166)	
Non-Current Liabilities & Deferred Inflows	(113,925)		(113,925)	
Current Ratio	7.359		7.359	
Total Assets & Deferred Outflows	6,963,339		6,963,339	
Total Liabilities & Deferred Inflows	(410,091)		(410,091)	
Total Net Position	(6,553,248)		(6,553,248)	
Operating Revenues	(4,430,672)		(4,430,672)	
Operating Expenses	8,051,590	(27,177)	8,024,413	-0.34%
Nonoperating (Revenues) Exp	(3,430,837)		(3,430,837)	
Change in Net Position	281,900	(27,177)	254,723	-9.64%

Client: Town of Castle Rock
Period Ending: December 31, 2019

Community Center Fund (216)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J) or Projected (P)	Assets & Deferred Outflows		Liabilities & Deferred Inflows		Operating	Operating	Nonoperating	Net Position	Net Effect on Following Year	
			Current	Noncurrent	Current	Noncurrent	Revenues	Expenses	(Revenues) Exp		Change in Net	Net Position
			DR (CR)	DR (CR)	DR (CR)	DR (CR)	DR (CR)	DR (CR)	DR (CR)	DR (CR)	DR (CR)	DR (CR)
Turnaround Effect - To accrue for invoices paid in 2019 relating to dates of service in 2018		F/P	0	0	0	0	0	(9,656)	0	9,656	0	0
	Net Position									9,656		
	Expense (F)							(9,656)				
Turnaround Effect - To accrue taxes and pension contributions related to accrued compensated absences per GASB 16		J	0	0	0	0	0	(17,521)	0	17,521	0	0
	Net Position									17,521		
	Expense							(17,521)				
Total passed adjustments			0	0	0	0	0	(27,177)	0	27,177	0	0
Impact on Change in Net Position										(27,177)		
Impact on Net Position										0		

Town of Castle Rock

ATTACHMENT

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

Wastewater Fund (213)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	8,918,568		8,918,568	
Non-Current Assets & Deferred Outflows	92,567,238		92,567,238	
Current Liabilities	(1,284,036)		(1,284,036)	
Non-Current Liabilities & Deferred Inflows	(1,017,170)		(1,017,170)	
Current Ratio	6.946		6.946	
Total Assets & Deferred Outflows	101,485,806		101,485,806	
Total Liabilities & Deferred Inflows	(2,301,206)		(2,301,206)	
Total Net Position	(99,184,600)		(99,184,600)	
Operating Revenues	(11,214,673)		(11,214,673)	
Operating Expenses	26,073,017	168,552	26,241,569	0.65%
Nonoperating (Revenues) Exp	(463,592)	50,237	(413,355)	-10.84%
Change in Net Position	9,598,202	218,789	9,816,991	2.28%

Client: Town of Castle Rock
Period Ending: December 31, 2019

Wastewater Fund (213)
SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

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

Town of Castle Rock

ATTACHMENT

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

Golf Fund (214)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	1,723,924		1,723,924	
Non-Current Assets & Deferred Outflows	7,952,237		7,952,237	
Current Liabilities	(742,643)		(742,643)	
Non-Current Liabilities & Deferred Inflows	(3,974,188)		(3,974,188)	
Current Ratio	2.321		2.321	
Total Assets & Deferred Outflows	9,676,161		9,676,161	
Total Liabilities & Deferred Inflows	(4,716,831)		(4,716,831)	
Total Net Position	(4,959,330)		(4,959,330)	
Operating Revenues	(3,189,851)		(3,189,851)	
Operating Expenses	2,835,708	(17,984)	2,817,724	-0.63%
Nonoperating (Revenues) Exp	146,490		146,490	
Change in Net Position	(273,014)	(17,984)	(290,998)	6.59%

Client: Town of Castle Rock
Period Ending: December 31, 2019

Golf Fund (214)
SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

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

Town of Castle Rock

ATTACHMENT

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

Development Services Fund (215)

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	4,232,872		4,232,872	
Non-Current Assets & Deferred Outflows	4,864,217		4,864,217	
Current Liabilities	(526,503)		(526,503)	
Non-Current Liabilities & Deferred Inflows	(9,704)		(9,704)	
Current Ratio	8.040		8.040	
Total Assets & Deferred Outflows	9,097,089		9,097,089	
Total Liabilities & Deferred Inflows	(536,207)		(536,207)	
Total Net Position	(8,560,882)		(8,560,882)	
Operating Revenues	(6,304,317)		(6,304,317)	
Operating Expenses	6,148,441	(28,437)	6,120,004	-0.46%
Nonoperating (Revenues) Exp	(103,806)		(103,806)	
Change in Net Position	(181,280)	(28,437)	(209,717)	15.69%

Client: Town of Castle Rock
Period Ending: December 31, 2019

Development Services Fund (215)
SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

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



Finance Department

July 14, 2020

BKD, LLP

Certified Public Accountants
1801 California Street, Suite 2900
Denver, Colorado 80202

We are providing this letter in connection with your audit of our financial statements as of and for the year ended December 31, 2019 and your audit of our compliance with requirements applicable to each of our major federal awards programs as of and for the year ended December 31, 2019. 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 12, 2019, 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.
- 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.
- 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 results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 11. 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.

12. 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.
 - (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.
13. 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.
14. 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.
15. 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.
16. 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 commitments, including those unable to be fulfilled.
 - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
- 17. 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.
- 18. 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.
- 19. 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.
- 20. 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.
- 21. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.
- 22. 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.
- 23. 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.
- 24. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
- 25. 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.
- 26. 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.
- 27. 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.
- 28. We have a process to track the status of audit findings and recommendations.
- 29. 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.
- 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 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 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) 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.
 - (n) 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.

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.
36. We adopted GASB No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance* which allowed us to postpone the adoption of GASB No. 83, *Certain Asset Retirement Obligations*, GASB No. 84, *Fiduciary Activities* and GASB No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which were originally required to be implemented by the City for the year ended December 31, 2019.
37. We acknowledge the current economic volatility presents difficult circumstances and challenges for the governmental industry. Governmental entities are facing declines in the fair values of investments and other assets, declines in the volume of business, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts receivable, net realizable value of inventory, etc. that could negatively impact the Town of Castle Rock's ability to meet debt covenants or maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Town of Castle Rock's financial statements. Further, management and the Town Council are solely responsible for all aspects of managing the Town of Castle Rock, including questioning the quality and valuation

of investments, inventory and other assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.

DocuSigned by:

David L. Corliss

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David L. Corliss, Town Manager

DocuSigned by:

Trish Muller

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Trish Muller, Finance Director

DocuSigned by:

Nicole Carner

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Nicole Carner, Assistant Finance Director

DocuSigned by:

Christie Guthrie

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Christie Guthrie, Accounting Manager