

Town of Castle Rock, Colorado

Report to the Honorable Mayor and Members of Town Council

May 27, 2021

Results of the 2020 financial statement audit, selected ratios, internal control matters and other required communications.

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Passed Adjustment Schedules.....	<i>Tab 1</i>
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May 27, 2021

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 audits of the financial statements and compliance of the Town of Castle Rock, Colorado (the Town) as of and for the year ended December 31, 2020. 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, 2020, 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 award 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,



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 	➡ No matters are reportable.
All	<ul style="list-style-type: none"> Revenue recognition 	➡ Two passed entries relating to revenue recognition were proposed but were not recorded by management. See Tab 1 for further information.
All	<ul style="list-style-type: none"> Implementation of new accounting standards: GASB 84, <i>Fiduciary Activities</i>; GASB 88, <i>Certain Disclosures Related to Debt including Direct Borrowing and Direct Placement</i>; GASB 83, <i>Certain Asset Retirement Obligations</i>; GASB 97 (paragraph 4 and 5), <i>Certain Component Unit Criteria</i> 	➡ Emphasis of Matter paragraph added to the opinions.
All	<ul style="list-style-type: none"> Expenditures 	➡ 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.
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 incurred but not reported

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, 2020, are fairly presented, in all material respects.

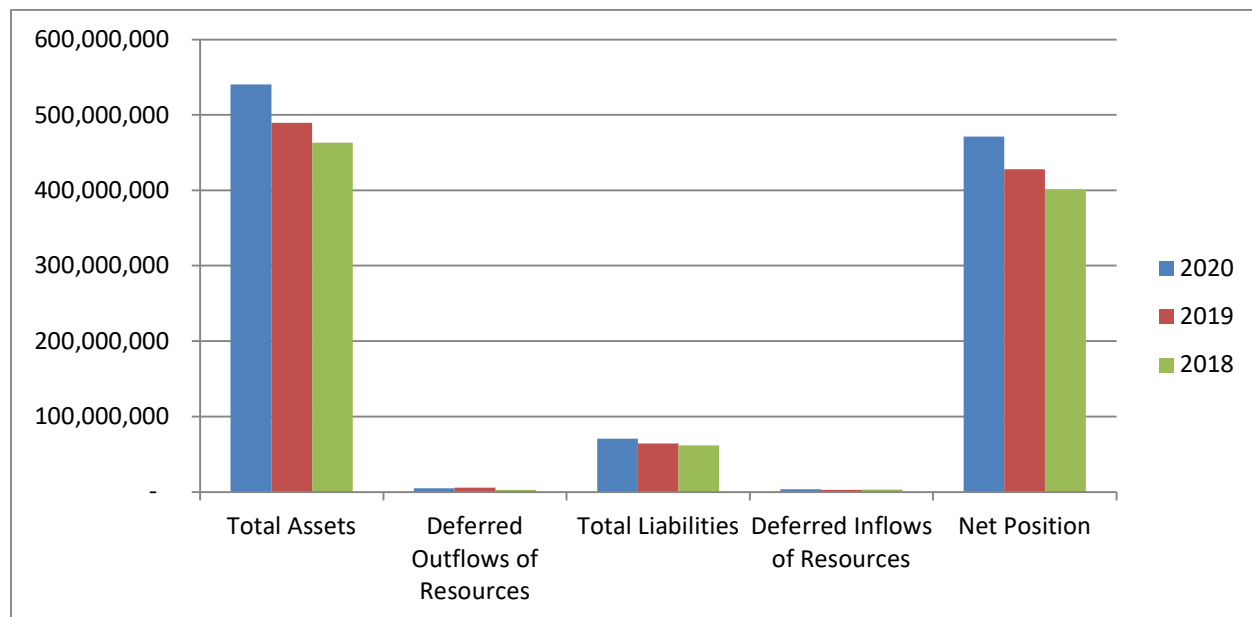
Requirements Under OMB Uniform Guidance

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

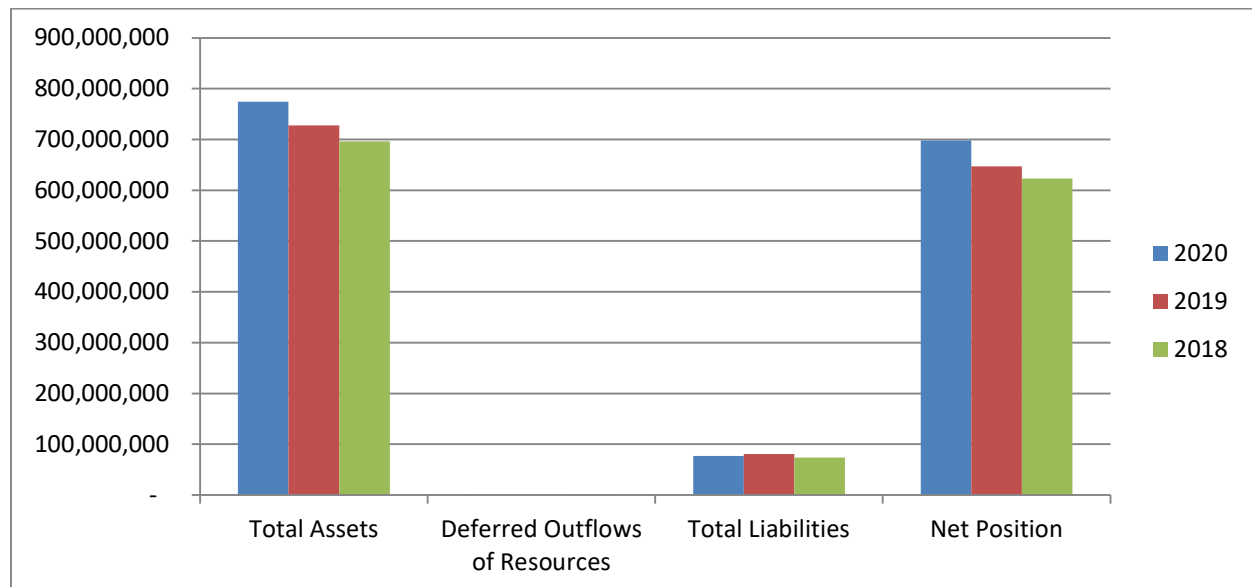
- Schedule of Expenditures of Federal Awards
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance for the Major Federal Program; Report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

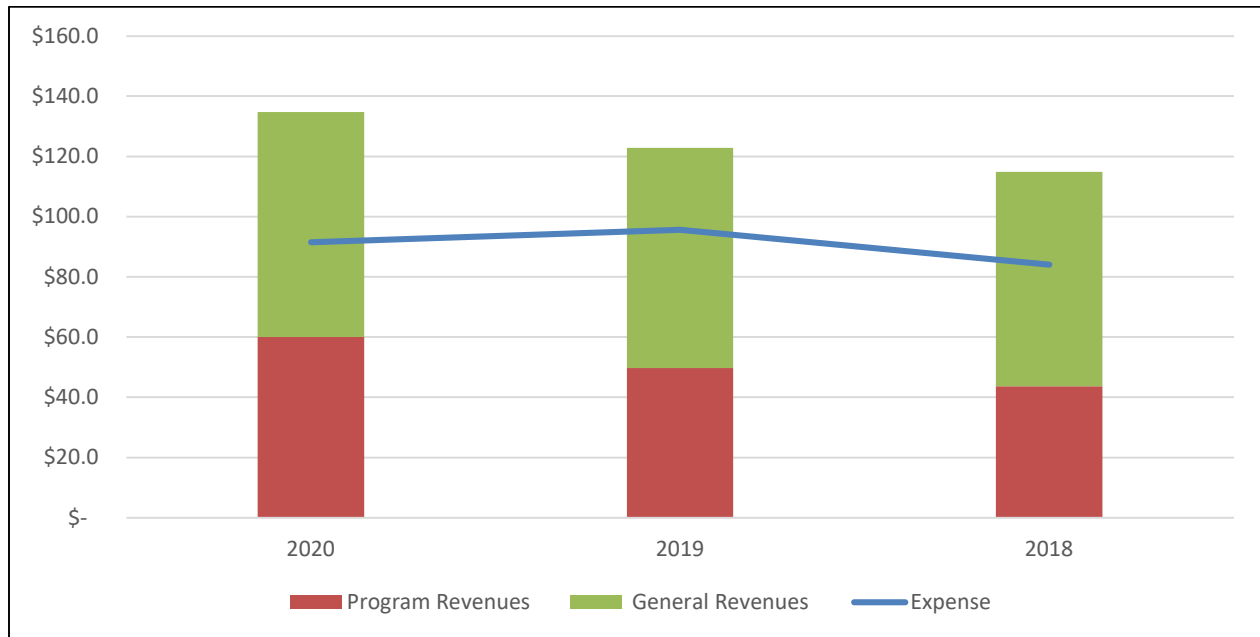


Business-type Activities



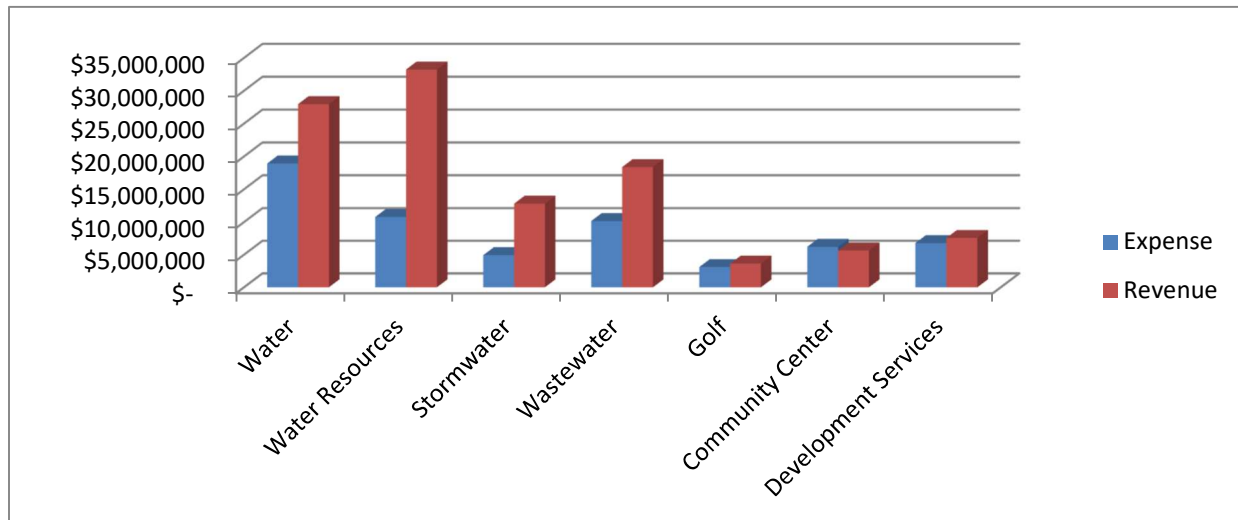
Expenses and Program Revenues – Governmental Activities

(in millions)

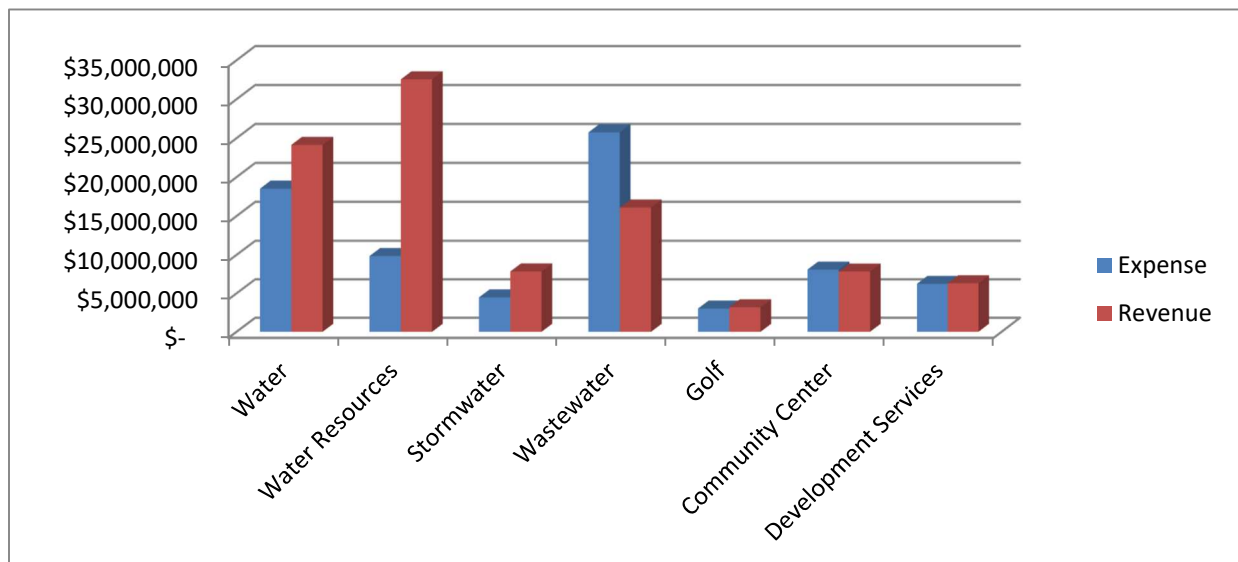


Expenses and Program Revenues – Business-type Activities

2020



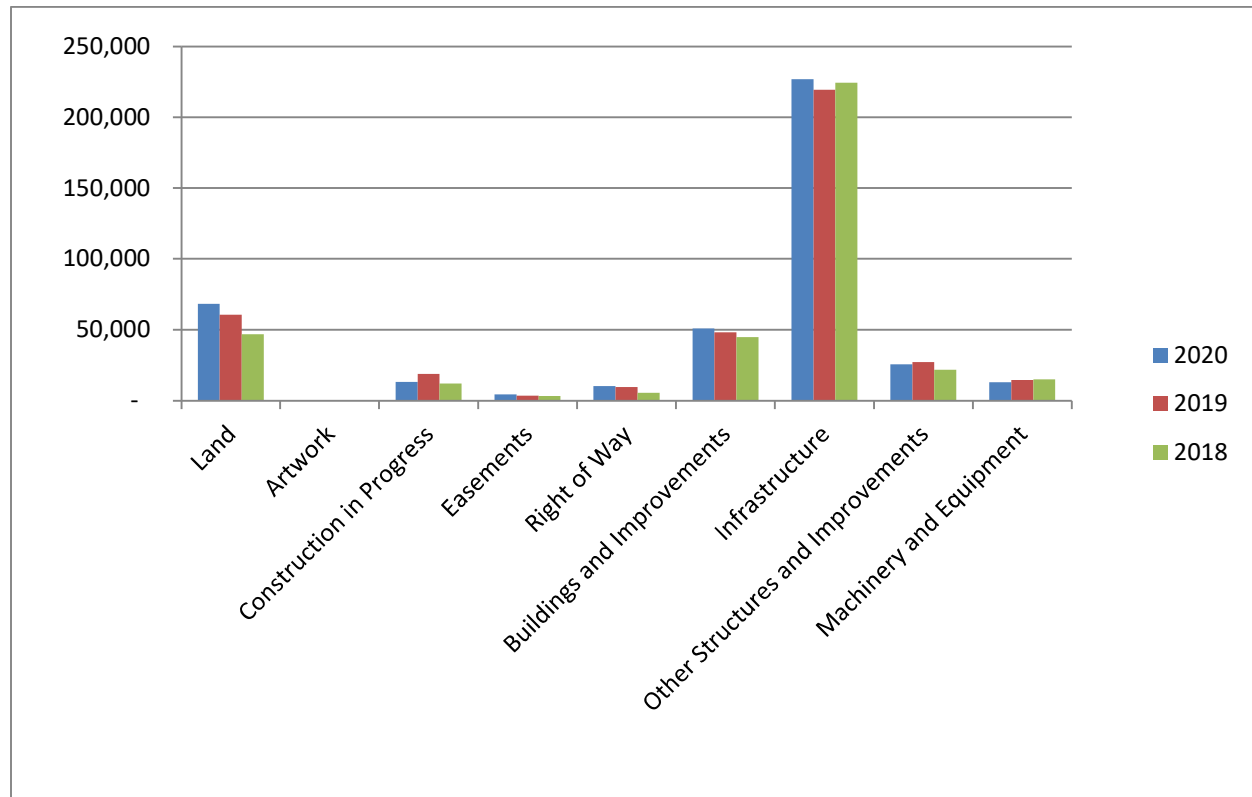
2019



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

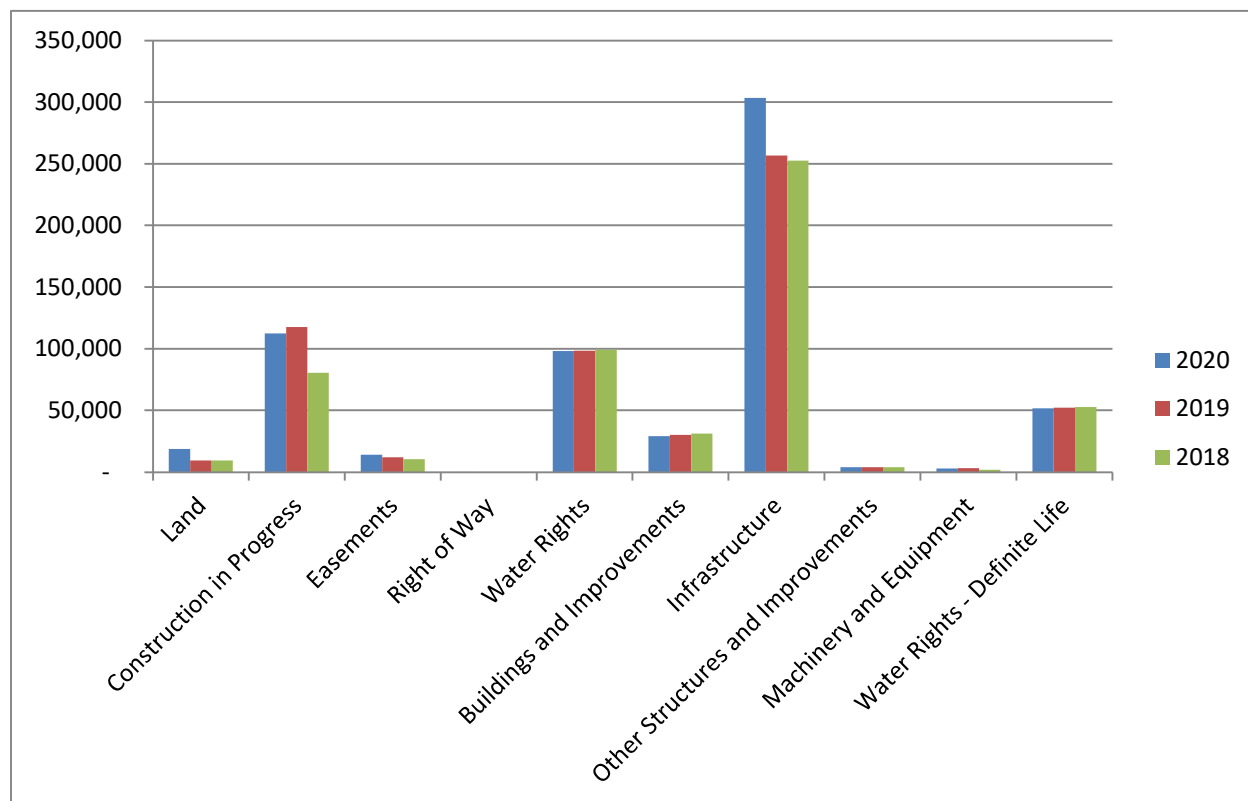
Capital Assets – Net of Accumulated Depreciation (in thousands)

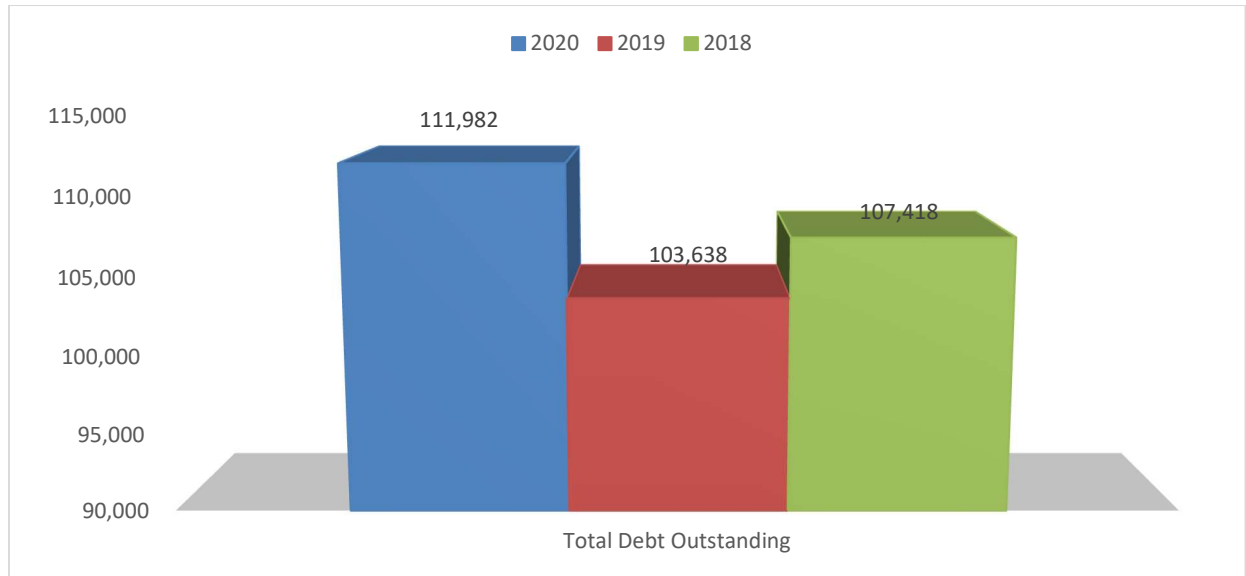
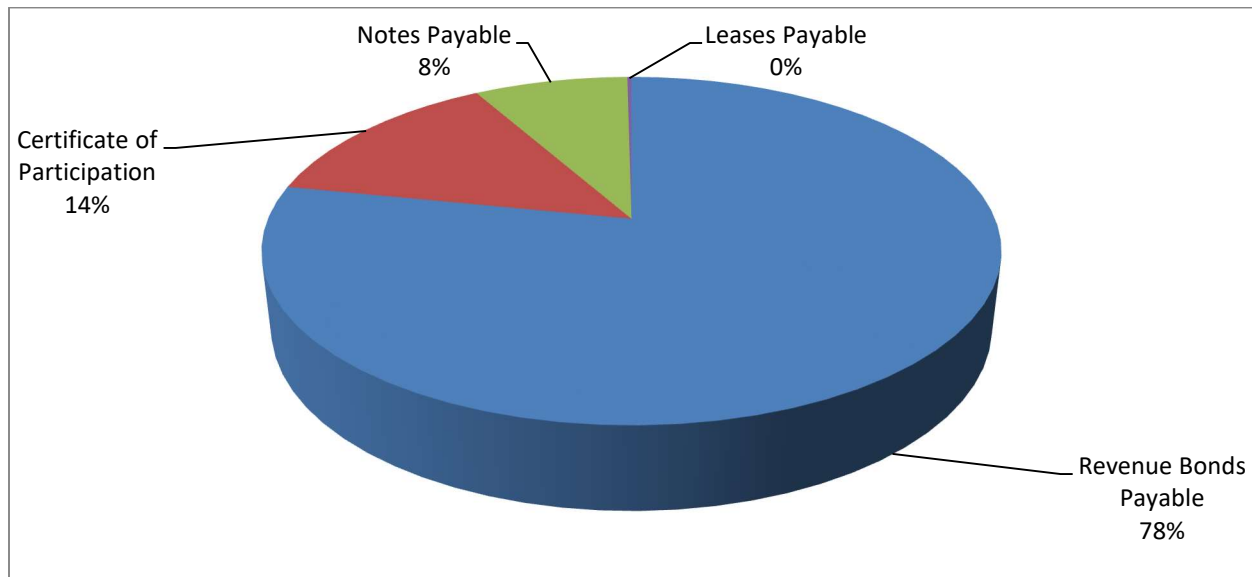
Governmental Activities



Capital Assets – Net of Accumulated Depreciation (in thousands)

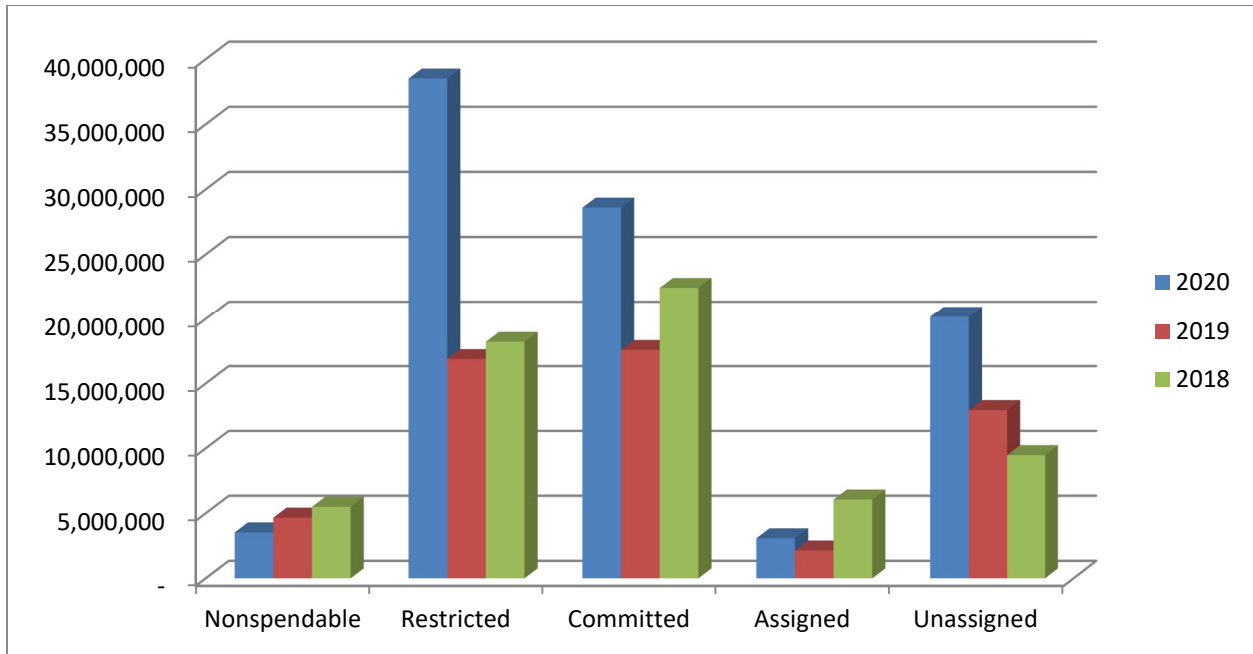
Business-type Activities



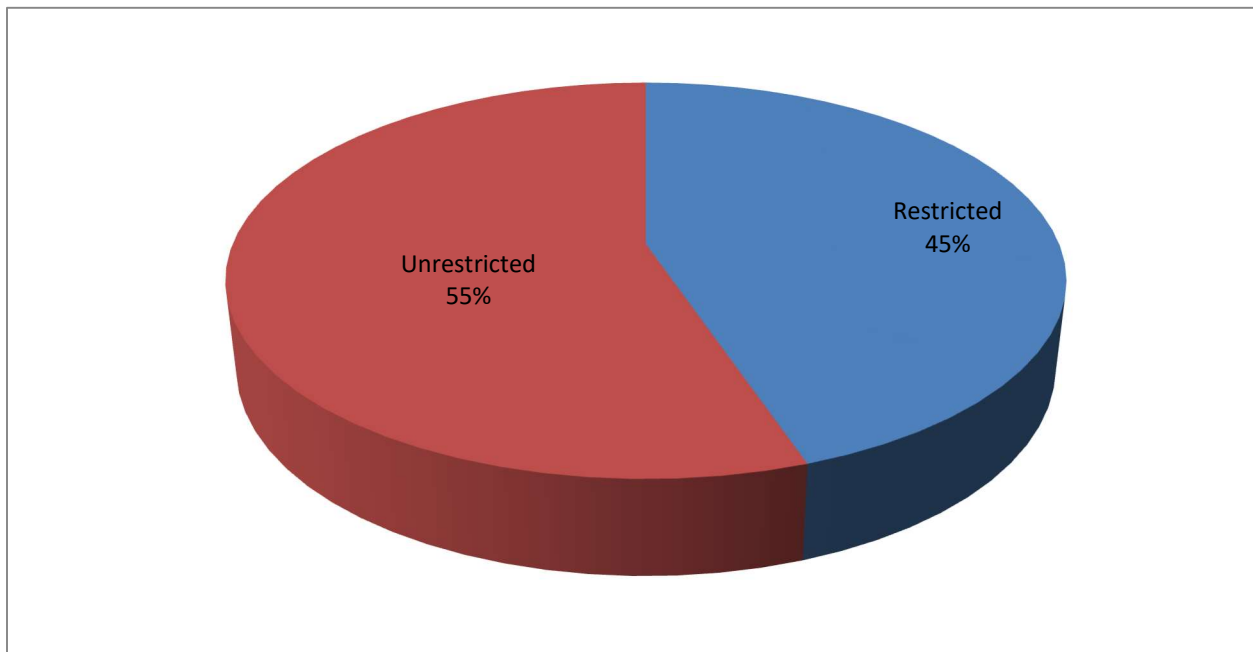
Outstanding Debt as of December 31 (in thousands)**Outstanding Debt by Type as of December 31, 2020:**

Note: The Town has no general obligation debt outstanding

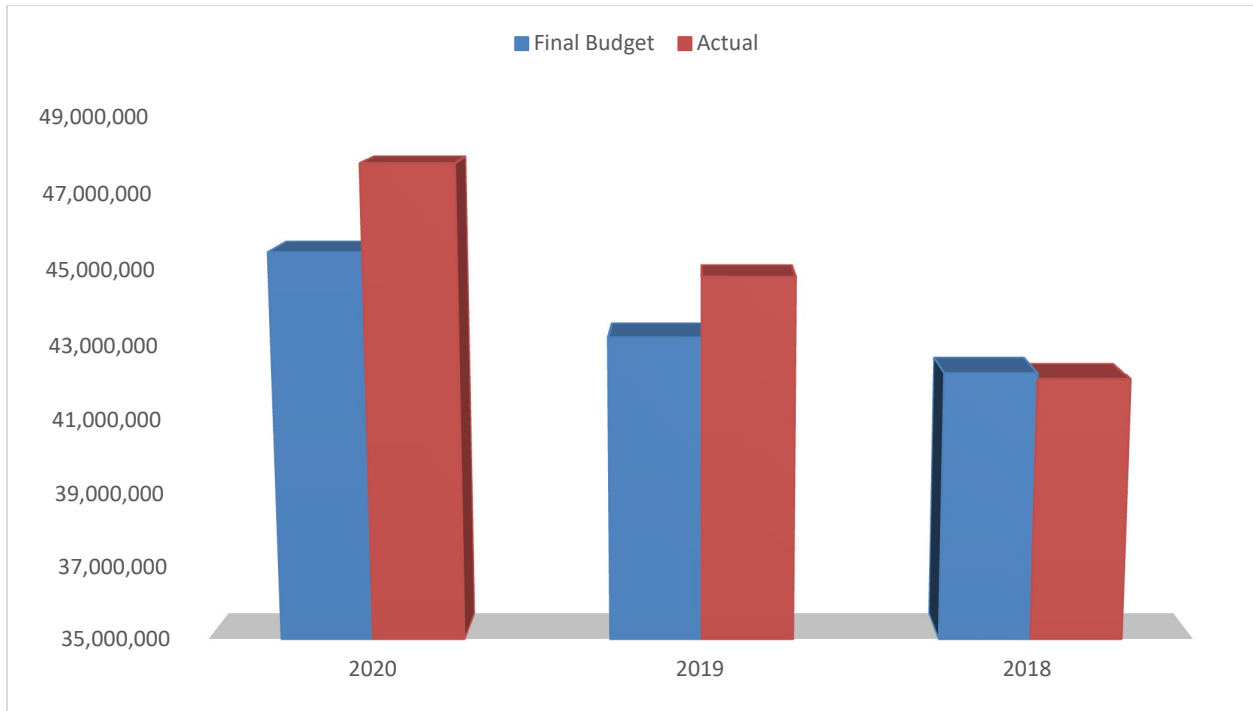
Total Governmental Funds Fund Balance Break-Out



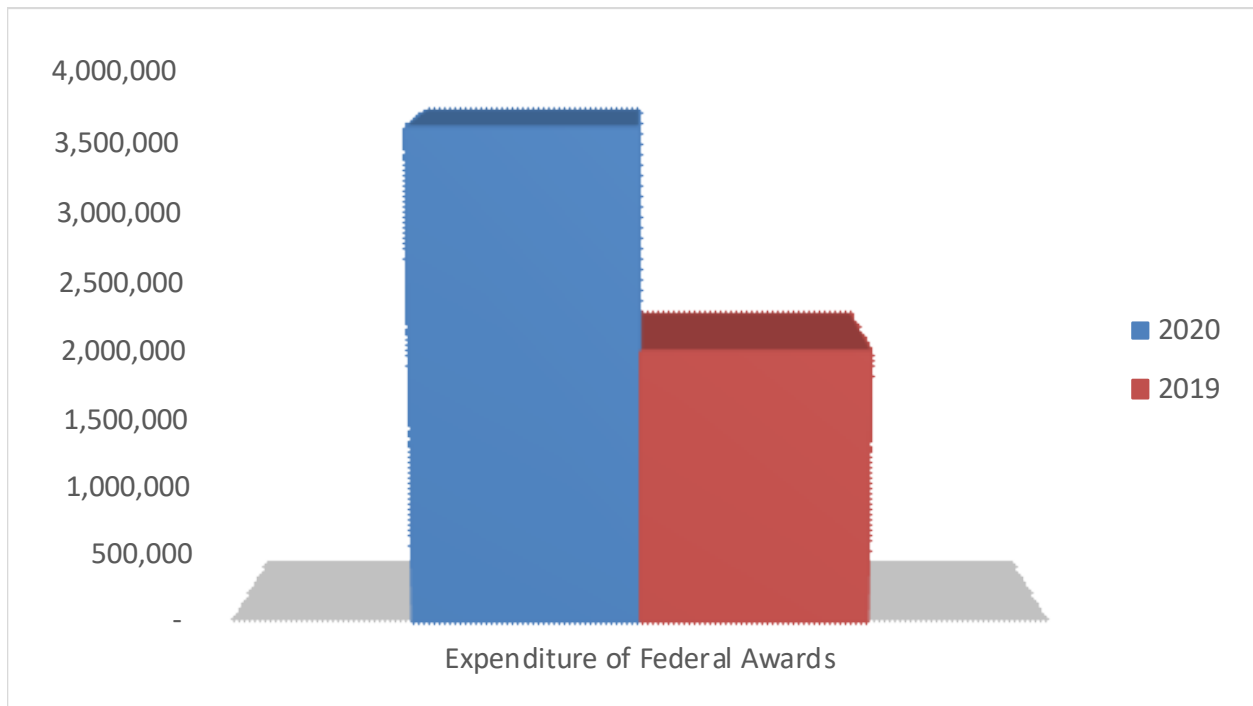
Restricted vs. Unrestricted Fund Balances as of December 31, 2020:



Budget to Actual – General Fund Tax Revenue



Single Audit Results



	2020	2019
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"> Coronavirus Relief Fund 	<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"> Zero
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> <ul style="list-style-type: none"> None <p>Federal Award Findings</p> <ul style="list-style-type: none"> None

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 opinion unit being audited. 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. 84, <i>Fiduciary Activities</i>; GASB Statement No. 88, <i>Certain Disclosures Related to Debt including Direct Borrowing and Direct Placement</i>; GASB Statement No. 83, <i>Certain Asset Retirement Obligations</i>; GASB Statement No. 97 (paragraph 4 and 5), <i>Certain Component Unit Criteria</i>; GASB 90, <i>Majority Equity Interests</i>.
<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>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>

Area	Comments
<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 • Restatement due to a change in reporting entity
<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"> • Reclassification of accounts receivable to cash <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, but more than trivial to the opinion unit 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 the Town's application of accounting principles listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • The Town adopted Governmental Accounting Standards Board (GASB) Statement No. 84, <i>Fiduciary Activities</i>; GASB Statement No. 88, <i>Certain Disclosures Related to Debt including Direct Borrowing and Direct Placement</i>; GASB Statement No. 97 (paragraph 4 and 5), <i>Certain Component Unit Criteria</i>.

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) and Miller's Landing Business Improvement District (BID) are audited by Haynie & Company and the Castle Rock Downtown Development Authority (DDA) is audited by Marc James & Associates. We placed reliance on their audit of the financial statements of PCWRA, BID, and DDA as of December 31, 2020 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. Impact of COVID-19.

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

The following Government Accounting Standards Board pronouncements are effective for the Town in the indicated calendar year:

Statement No. 87, <i>Lease</i>	2022
Statement No. 91, <i>Conduit Debt Obligations</i>	2022
Statement No. 92, <i>Omnibus 2020</i>	2022
Statement No. 93, <i>Replacement of Interbank Offered Rates</i>	2021
Statement No. 93, <i>Replacement of Interbank Offered Rates (LIBOR removal and lease modifications)</i>	2022
Statement No. 94, <i>Public-Private Partnership</i>	2023
Statement No. 96, <i>Subscription-based Information Technology Arrangements</i>	2023
Statement No. 97, <i>Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans</i>	2022

Below is further explanation of standards which may have a significant impact on the Town in the next two years:

GASB Statement No. 87, *Leases*

In June 2017, GASB published Statement No. 87, *Leases*. This Statement was the result of a multi-year project to reexamine the accounting and financial reporting for leases. The new Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. Specifically, GASB 87 includes the following accounting guidance for lessees and lessors:

Lessee Accounting: A lessee will recognize a liability measured at the present value of payments expected to be made for the lease term, and an intangible asset measured at the amount of the initial lease liability, plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs. A lessee will reduce the liability as payments are made and recognize an outflow of resources for interest on the liability. The asset will be amortized by the lessee over the shorter of the lease term or the useful life of the asset.

Lessor Accounting: A lessor will recognize a receivable measured at the present value of the lease payments expected for the lease term and a deferred inflow of resources measured at the value of the lease receivable plus any payments received at or prior to the beginning of the lease that relate to future periods. The lessor will reduce the receivable as payments are received and recognize an inflow of resources from the deferred inflow of resources in a systematic and rational manner over the term of the lease. A lessor will not derecognize the asset underlying the lease. There is an exception for regulated leases for which certain criteria are met, such as airport-aeronautical agreements.

The lease term used to measure the asset or liability is based on the period in which the lessee has the noncancelable right to use the underlying asset. The lease term also contemplates any lease extension or termination option that is reasonably certain of being exercised.

GASB 87 does not apply to leases for intangible assets, biological assets (*i.e.* timber and living plants and animals), service concession agreements or leases in which the underlying asset is financed with conduit debt that is reported by the lessor. Additionally, leases with a maximum possible term of 12 months or less are excluded.

GASB 87 is effective for fiscal years beginning after June 15, 2021. Early application is encouraged. It is anticipated that leases would be recognized using the facts and circumstances in effect at the beginning of the period of implementation.

GASB Statement No. 91, *Conduit Debt Obligations*

The primary objectives of GASB 91 are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 91 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.

The requirements of GASB 91 are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

* * * * *

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

May 27, 2021

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	545,113,909	634,459	545,748,368	0.12%
Total Liabilities & Deferred Inflows	(74,121,378)		(74,121,378)	
Total Net Position	(470,992,531)	(634,459)	(471,626,990)	0.13%
General Revenues & Transfers	(74,726,908)	(401,769)	(75,128,677)	0.54%
Net Program Revenues/ Expenses	31,493,596	(232,690)	31,260,906	-0.74%
Change in Net Position	(43,233,312)	(634,459)	(43,867,771)	1.47%

Client: Town of Castle Rock

Period Ending: December 31, 2020

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		Change in Net Position	
			DR (CR)		DR (CR)		DR (CR)		DR (CR)		DR (CR)	
To adjust accounts receivable for the amount that should have been accrued for December 2020, but was accrued as of November 2020. This combines the effect of all governmental funds.		F		381,680		0	(401,769)		20,089		381,680	(381,680)
	Accrued Receivables			381,680								
	Motor Vehicle Tax						(401,769)				401,769	(401,769)
	Administration Fee							20,089			(20,089)	20,089
To adjust EMS receivable to gross amount rather than net amount.		F		252,779		0	0		(252,779)		252,779	(252,779)
	EMS Receivable			252,779								
	Revenue							(252,779)			252,779	
Total passed adjustments												
				634,459		0	(401,769)		(232,690)		634,459	(634,459)
Impact on Change in Net Position (634,459)												
Impact on Net Position (634,459)												

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	56,835,673	500,250	57,335,923	0.88%
Total Liabilities & Deferred Inflows	(9,846,481)		(9,846,481)	
Total Fund Balance	(46,989,192)	(500,250)	(47,489,442)	1.06%
Revenues	(59,536,174)	(513,275)	(60,049,449)	0.86%
Expenditures	51,294,704	113,025	51,407,729	0.22%
Change in Fund Balance	(17,442,272)	(400,250)	(17,842,522)	2.29%

Client: Town of Castle Rock**Period Ending: December 31, 2020****General Fund****SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)**

Net Effect on Following Year													
Description	Financial Statement Line Item	Factual (F), Judgmental (J) or Projected (P)	Assets & Deferred Outflows		Liabilities & Deferred Inflows		Revenues		Expenditures		Fund Balance		
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR
Turnaround Effect - To adjust Encore liability and restricted cash per final agreement.		F		0	0		0		100,000		(100,000)	0	0
	Other Expenses								100,000				
	Fund Balance										(100,000)		
To adjust accrued receivable for the amount that should have been accrued for December 2020. The balance accrued was for November 2020.		F		247,471	0		(260,496)		13,025		0	247,471	(247,471)
	Accrued Receivables			247,471									(247,471)
	Motor Vehicle Tax						(260,496)					260,496	
	Administration Fee							13,025				(13,025)	
To adjust EMS receivable to gross amount rather than net amount.		F		252,779	0		(252,779)		0		0	252,779	(252,779)
	EMS Receivable			252,779									(252,779)
	Revenue						(252,779)					252,779	
Total passed adjustments				500,250	0		(513,275)		113,025		(100,000)	500,250	(500,250)
Impact on Change in Fund Balance:												(400,250)	
Impact on Fund Balance												(500,250)	

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.

Transportation Fund
QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	20,737,645	134,209	20,871,854	0.65%
Total Liabilities & Deferred Inflows	(5,870,640)		(5,870,640)	
Total Fund Balance	(14,867,005)	(134,209)	(15,001,214)	0.90%
Revenues	(26,603,198)	(141,273)	(26,744,471)	0.53%
Expenditures	19,568,228	7,064	19,575,292	0.04%
Change in Fund Balance	(6,427,216)	(134,209)	(6,561,425)	2.09%

Impact on Fund Balance	(134,209)
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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.

216 - Community Center Fund

QUANTITATIVE ANALYSIS

	Before		Subsequent to	
	Misstatements	Misstatements	Misstatements	% Change
Current Assets	1,363,430	24,276	1,387,706	1.78%
Non-Current Assets & Deferred Outflows	4,911,567	(37,869)	4,873,698	-0.77%
Current Liabilities	(184,767)		(184,767)	
Non-Current Liabilities & Deferred Inflows	(181,985)		(181,985)	
Current Ratio	7.379		7.511	1.79%
Total Assets & Deferred Outflows	6,274,997	(13,593)	6,261,404	-0.22%
Total Liabilities & Deferred Inflows	(366,752)		(366,752)	
Total Net Position	(5,908,245)	13,593	(5,894,652)	-0.23%
Operating Revenues	(1,962,493)	(25,554)	(1,988,047)	1.30%
Operating Expenses	6,225,729	39,147	6,264,876	0.63%
Nonoperating (Revenues) Exp	(3,698,233)		(3,698,233)	
Change in Net Position	645,003	13,593	658,596	2.11%

Client: Town of Castle Rock
Period Ending: December 31, 2020

216 - Community Center Fund
SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Assets & Deferred Outflows										Liabilities & Deferred Inflows										Net Effect on Following Year			
Description		Factual (F), Judgmental (J) or Projected (P)		Financial Statement Line Item		Current		Noncurrent		Current		Noncurrent		Operating Revenues		Operating Expenses		Nonoperating (Revenues) Exp		Change in Net Position		Net Position	
						DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
To adjust accrued receivable for the amount that should have been accrued for December 2020. The balance accrued was for November 2020.	F				24,276	0	0	0						(25,554)	1,278	0	0		24,276		(24,276)		
To record depreciation on a depreciable asset with no historic depreciation recorded.	F				0	(37,869)	0	0						0	37,869	0	0		(37,869)		37,869		
Total passed adjustments					24,276	(37,869)	0	0						(25,554)	39,147	0	0		(13,593)		13,593		
																		Impact on Change in Net Position		13,593			
																				Impact on Net Position		13,593	

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.

213 - Wastewater Fund

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	13,944,230		13,944,230	
Non-Current Assets & Deferred Outflows	95,425,473		95,425,473	
Current Liabilities	(1,079,903)		(1,079,903)	
Non-Current Liabilities & Deferred Inflows	(696,279)		(696,279)	
Current Ratio	12.912		12.912	
Total Assets & Deferred Outflows	109,369,703		109,369,703	
Total Liabilities & Deferred Inflows	(1,776,182)		(1,776,182)	
Total Net Position	(107,593,521)		(107,593,521)	
Operating Revenues	(11,271,632)		(11,271,632)	
Operating Expenses	10,243,033		10,243,033	
Nonoperating (Revenues) Exp	(7,380,322)	(90,000)	(7,470,322)	1.22%
Change in Net Position	(8,408,921)	(90,000)	(8,498,921)	1.07%

Client: **Town of Castle Rock**
Period Ending: **December 31, 2020**

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

Assets & Deferred Outflows										Liabilities & Deferred Inflows													
Description		Factual (F), Judgmental (J) or Projected (P)		Current		Noncurrent		Current		Noncurrent		Operating Revenues		Operating Expenses		Nonoperating (Revenues) Exp		Net Position		Change in Net Position		Net Effect on Following Year	
				DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)				
To show effect of an adjustment to contributed capital for an amount miskeyed when originally recorded in 2018		F		0		0		0		0		0		0		(90,000)		90,000		0		0	
	Net Position																						
	Contributed Capital																(90,000)		90,000				
Total passed adjustments																							
				0		0		0		0		0		0		(90,000)		90,000		0		0	
												Impact on Change in Net Position								(90,000)			
												Impact on Net Position								0			

Representation of:

Town of Castle Rock
100 North Wilcox Street
Castle Rock, Colorado 80104

Provided to:

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

The undersigned (“We”) are providing this letter in connection with BKD’s audit of our financial statements as of and for the year ended December 31, 2020 and your audit of our compliance with requirements applicable to our major federal awards program as of and for the year ended December 31, 2020.

Our representations are current and effective as of the date of BKD’s report: May 27, 2021.

Our engagement with BKD is based on our contract for services dated: September 3, 2020.

Our Responsibility and Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to BKD’s report 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.

Confirmation of Matters Specific to the Subject Matter of BKD’s Report

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 contract, 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:
 - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.

3. 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 Town 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 or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
 - e. All significant contracts and grants.
4. All transactions have been recorded in the accounting records and are reflected in the financial statements.
5. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
 - a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, liabilities or net position.
6. 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.
7. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
 - a. Management or employees who have significant roles in internal control, or
 - b. Others, where activities of others could have a material effect on the financial statements.
8. 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.
9. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.
10. We have disclosed to you the identity of the Town'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 Town may deal if the

Town 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, the Town.

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 records.
 - c. Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - d. Events occurring subsequent to the 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 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, the Town has:
 - 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.
17. 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 that 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 that 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.
18. 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.
19. 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.
20. 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.
21. 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.
22. The Town does not have any asset retirement obligations as defined under GASB 83: *Certain Asset Retirement Obligations* and we do not believe a liability is required to be recorded.
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 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 have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.

25. 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.

26. As an entity subject to *Government Auditing Standards*:

- a. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements.
- b. 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.
- c. 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.
- d. 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.
- e. We have a process to track the status of audit findings and recommendations.
- f. 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.

27. 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.
28. 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.
29. 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.
30. Due care has been exercised in the preparation of the Introductory and Statistical and Other Schedules Sections of the 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.
31. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Governmental entities are potentially 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 governance are solely responsible for all aspects of managing the Town, including questioning the quality and valuation of investments, inventory, and other assets; reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.; etc.

DocuSigned by:

David L. Corliss

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David Corliss, City Manager

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Nicole Carner

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