

July 5, 2023

City Council
City of Craig
300 West Fourth Street
Craig, Colorado 81625

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Craig (the City) for the year ended December 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 23, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. During the year ended December 31, 2023, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. The adoption of this standard did not have an impact on the financial statements for the year ended December 31, 2023. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the City's financial statements were:

- Management's estimate of depreciation expense is based on the straight-line method of depreciation from the date the asset is placed into service.
- Management's estimate of the leased assets and leased liabilities are based on the present value of future payments under the lease agreements.
- Management's estimate of the accrued compensated absences is based on employees hourly rate of pay as of December 31, 2023 and hours accrued as of December 31, 2023.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

There are no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. A schedule of corrected and uncorrected misstatements is attached to this letter.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 5, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. The section below contains internal control matters that did not raise to the level of a material weakness or significant deficiency.

Management Letter Comments

Invoices Billed to Outside Parties

During our review of internal control processes, we noted instances of invoices billed to outside contractors being generated by individuals outside of the accounting and finance department. In order for the City to accurately reconcile outstanding receivables and follow up on past due collections, we recommend that the City implement a process to centralize the creation of all invoices to outside parties within the accounting and finance department.

Water Fund Revenue Loan Operation and Maintenance Reserve

The CWRPDA loan agreements held by the water fund contain a covenant related to an Operation and Maintenance Reserve. The loan agreements state that the City shall maintain an operation and maintenance reserve in an amount equal to 25% of operation and maintenance expenses, excluding depreciation as set forth in the annual budget for the current year. The City's originally adopted 2023 budget outlined \$2,399,985 of operations and maintenance expenses, which equates to a calculated reserve requirement of \$599,996. The City's 25% operating reserve presented in the 2023 budget was \$592,845, which fell \$7,151 short of the required reserve. We recommend that the City implement a process to review the budgeted 25% operating and maintenance reserve against total correlating expenses when drafting the budget to ensure the minimum reserve amount is appropriated in the budget.

Other Matters

We applied certain limited procedures to management's discussion and analysis (MD&A), and the general fund and craig housing authority budgetary comparison schedule which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund balance statements and schedules, the schedule of expenditures of federal awards, and the local highway finance report which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

The Adams Group, LLC
Certified Public Accountants

Client: 00150.0 - City of Craig
Engagement: 2023 AUD - City of Craig
Period Ending: 12/31/2023
Trial Balance: TB
Workpaper: 3700.05 - AJE Report
Fund Level: Fund
Index: 10, 21, 29, 95, 98, 20, 50, 60, 70, 80

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
Client proposed adjustment to remove the long term lease liability from the general fund trial balance				
10-2130	NOTES PAYABLE (current)		87,780.00	
10-2551	NOTES PAYABLE - PSC ROU		210,791.00	
10-2720	FUND BAL-UNASSIGNED			298,571.00
Total			298,571.00	298,571.00
Adjusting Journal Entries JE # 3				
To reclassify loan proceeds from CHA letter of credit				
95-2430	NOTES PAYABLE - YVCF LOC		1,514,072.00	
95-99-99997_TAG	Proceeds from long-term debt			1,514,072.00
Total			1,514,072.00	1,514,072.00
Adjusting Journal Entries JE # 4				
Client proposed adjustment to zero out governmental capital assets that are tracked within the general fund.				
10-64-36900	SVC RPR/MAINT-SWEEPER		3,500.00	
10-1700	INVESTMENT IN FIXED ASSETS			3,500.00
Total			3,500.00	3,500.00
Adjusting Journal Entries JE # 5				
Reclass disposal of prior year CIP for financial statement presentation				
50-39-10000	GAIN/LOSS ON FIXED ASSETS		21,730.00	
50-65-93116	IMPRV ENGINEERING			21,730.00
Total			21,730.00	21,730.00
Adjusting Journal Entries JE # 6				
Immaterial reclass of principal and interest expense for the PSC lease based on the remeasurement of the lease with reduced monthly payments in 2024				
10-51-62000	INTEREST - ROU PUBLIC SAFETY		2,914.00	
10-51-61000	PRINCIPAL - ROU PUBLIC SAFETY			2,914.00
Total			2,914.00	2,914.00
Adjusting Journal Entries JE # 7				
To record deferred inflow of resources for grant A/R in which payment was received in March 2024 (related to Craig 8th Street Redevelopment Project).				
10-33-13506	GRANTS DOLA - IHOI		1,070,453.00	
10-2500	DEFERRED REVENUE			1,070,453.00
Total			1,070,453.00	1,070,453.00
Total Adjusting Journal Entries			2,911,240.00	2,911,240.00
Total All Journal Entries			2,911,240.00	2,911,240.00