

TOWN OF LYONS, COLORADO
FEDERAL AWARDS REPORT IN ACCORDANCE
WITH THE UNIFORM GUIDANCE

December 31, 2016



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the Board of Trustees
Town of Lyons, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lyons, Colorado (Town), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Lyons, Colorado's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Lyons, Colorado's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Lyons, Colorado's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness or significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompany schedule of findings and questioned to be a material weakness as 2016-A.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned to be a significant deficiency as 2016-B.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Lyons, Colorado's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Lyons Colorado's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 29, 2017
Denver, Colorado

Payette & Adams, LLC



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE**

To the Board of Trustees
Town of Lyons, Colorado

Report on Compliance for Each Major Federal Program

We have audited the Town of Lyons, Colorado's (Town) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Lyons, Colorado's major federal programs for the year ended December 31, 2016. The Town of Lyons, Colorado's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and question costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Lyons, Colorado's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion the Town of Lyons, Colorado complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lyons, Colorado as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town of Lyons, Colorado's basic financial statements. We issued our report thereon dated September 29, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements

that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Payette & Adams, LLC

September 29, 2017
Denver, Colorado

TOWN OF LYONS, COLORADO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Pass-through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Homeland Security				
Passed through Colorado Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4145	\$ 3,113,775	\$ -
Hazard Mitigation Grant	97.039	MG4145045214	2,380,858	-
Total U.S. Department of Homeland Security			5,494,633	-
U.S. Department of Commerce				
Direct programs				
Investments for Public Works and Economic Development Facilities	11.300	LY 05-01005734	871	-
Total U.S. Department of Commerce			871	-
U.S. Department of Transportation				
Passed through Colorado Department of Transportation				
Highway Planning and Construction	20.205	STE-M835-003	1,485,950	-
Total U.S. Department of Transportation			1,485,950	-
U.S. Department of Housing and Urban Development				
Passed through the Colorado Department of Local Affairs				
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	CDBG R1-60-021	545,474	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	CDBG R1-60-022	575,760	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	CDBG-DR-P15-043	182,339	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	CDBG-DR-P15-043	285,657	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	CDBG-DR-P16-009	48,032	-
			1,637,262	-
Passed through the Boulder County Collaborative				
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-00023	698,834	-
Total U.S. Department of Housing and Urban Development			2,336,096	-
U.S. Department of Agriculture				
Direct programs				
Rural Business Enterprise Grants	10.769	05-007-76445586	11,986	-
Total U.S. Department of Agriculture			11,986	-
U.S. Department of Interior				
Passed through the Colorado Department of Local Affairs				
Distribution of Receipts to State and Local Governments	15.227	F15MLG7458	104,951	-
Total U.S. Department of Interior			104,951	-
Total Federal Financial Assistance			\$ 9,434,487	\$ -

TOWN OF LYONS, COLORADO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Lyons, Colorado government (the Town). All federal financial assistance received by the Town directly from federal agencies, as well as federal financial assistance passed through other government agencies, including the State of Colorado, is included on the schedule.

NOTE B – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Town under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of the operations of The Town of Lyons, Colorado, it is not intended to and does not present the financial position or changes in net assets, of the Town of Lyons, Colorado.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. See Note 1 of the financial statements for summary of significant accounting policies.

The Town has not elected to use the ten percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – ADJUSTMENT FOR PRIOR YEAR CHANGES TO SCHEDULE OF AWARDS

As discussed in Note 1 to the financial statements, the allowability of federal grant expenditures is a significant estimate. The Town and grantor agencies identified expenditures made in prior years related to Federal Programs which were deemed ineligible in the current year. Management of the Town of Lyons believe these changes are a change in estimate and not a restatement of prior years. As a result, the current year federal expenditures were reduced as follows for 2016.

Federal Program	Federal CFDA No.	Total Disallowed	Federal Share
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 302,000	\$ 226,500
Hazard Mitigation Grant	97.039	108,455	108,455
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	106,245	106,245
		<u>\$ 516,700</u>	<u>\$ 441,200</u>

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: *unmodified opinion*

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☒ Yes ☐ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ Yes ☒ No

Type of auditor's report issued on compliance for major programs: *unmodified opinion*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number 97.036
U.S. Department of Homeland Security:
Disaster Grants – Public Assistance
(Presidentially Declared Disasters)

CFDA Number 97.039
U.S. Department of Homeland Security:
Hazard Mitigation Grant

CFDA Number 14.269
U.S. Department of Housing and Urban
Development:
Hurricane Sandy Community
Development Block Grant Disaster
Recovery Grants (CDBG-DR)

CFDA Number 20.205
U.S. Department of Transportation:
Highway Planning and Construction

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2016

Section I - Summary of Auditors' Results (Continued)

Dollar threshold used to distinguish between
type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes

_____ X No

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2016

Section II Findings - Financial Statement Findings	
Reference Number	Finding
2016-A	Capital Asset Accounting-Material Weakness
Criteria:	Accounting principles generally accepted in the United States of America (US GAAP) that addresses the proper recognition and accounting of capital assets: ➤ Governmental Accounting Standards Board Statement No. 34, <i>Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments</i>. ➤ Governmental Accounting Standards Board Statement No. 62, <i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i>. ➤ Various implementation guidance issued by the GASB. In accordance with this guidance, capital assets should be reported at their historical cost at the date of acquisition, reported with the appropriate asset classification and systematically depreciated beginning on the date the asset is placed in service. Controls must be in place to ensure information is properly captured and recorded in the general ledger.
Condition:	The Town's ending 2015 capital asset balances were adjusted during 2016. The nature of these adjustments were to; ▪ increase assets in construction in progress that should have been capitalized in prior years, ▪ remove from construction in progress amounts that should not have been capitalized in prior years, ▪ and remove from construction in progress assets that were completed and in service in prior years but remained in construction in progress. In addition, for the year ended December 31, 2016, the Town hired a consultant to assist in the preparation of the financial statements. The asset ledgers provided by Town staff required significant adjustments and changes.
Cause:	The Town was flooded in September 2013. As a result of this flood, the Town's governmental expenditures increased from approximately \$1.8 million in 2012 to \$19.7 million this fiscal year. Total capital assets in 2013 were less than \$13.5 million. Current year 2016 capital asset additions alone totaled approximately \$9.4 million. The majority of the assets are funded by federal grants. In the grant fund, expenditures are not reported as current and capital outlay in the general ledger. As a result, capturing transactions which should be capitalized does not have an additional control of being identified as capital outlay.

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2016

Reference Number	Finding
<u>2016-A Capital Asset Accounting-Material Weakness</u>	
	Finally, there was no formal communications between the Finance and other Town departments to identify capital assets purchases as opposed to repairs and maintenance or when capital assets were put into service.
Effect:	The capital asset balances for the year ended December 31, 2015 required adjustment and restatement. The 2016 audit was not completed on a timely basis.
Questioned Costs:	None reported
Identification as a Repeat Finding:	Not applicable
Recommendation:	The Town should consider the feasibility of including a capital outlay set of accounts in the grant fund. A system of formal meetings between the Finance and other Town departments to discuss capital assets should be implemented. Capital asset reporting should be done throughout the year, not only at the end of the year.
Views of Responsible Officials:	Agree-Management has prepared a separate corrective action plan.

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2016

Section II Findings - Financial Statement Findings	
Reference Number	Finding
2016-B <u>Enterprise Fund Inventories-Significant Deficiency</u>	
Criteria:	An effective financial reporting system is an important component of an internal control system that helps to ensure transactions are recorded accurately and on a timely basis and assets are properly safeguarded. The Town is responsible for establishing and maintaining effective internal controls over enterprise funds inventories.
Condition:	In 2015, the Town recorded \$94,595 of inventory in the enterprise funds. For the year ended December 31, 2016, the Town is recording the same general ledger balances for enterprise fund inventories.
Cause:	During 2016 the Town implemented a new asset tracking system which was intended to track, among other items, the Town's enterprise funds inventories of supplies on an annual basis. When reviewing this asset tracking system Town personnel noted that while items in the supply inventory were tagged, it did not appear that they were properly described, counted and priced.
Effect:	The Town lacks documentation to substantiate the amounts of enterprise fund inventories.
Questioned Costs:	None reported
Identification as a Repeat Finding:	Not applicable
Recommendation:	The Town should implement an internal control system to document the amount of enterprise funds inventories. This system should include the implementation of the asset tracking system. In addition, this system should include a physical inventory count to confirm the reported inventory amounts.
Views of Responsible Officials:	Agree-Management has prepared a separate corrective action plan.

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2016

Section III Findings – Federal Award Findings and Questioned Costs

Reference Number	Finding	Questioned Costs
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None

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2016

Section IV Prior Year Federal Award Findings and Questioned Costs

2015-A Material Audit Adjustments

Initial Year Finding
Occurred: 2013

Finding Summary: Based on the audit procedures performed we found proposed adjustments totaling approximately \$1.9 million to the Town's general ledger. Town personnel also prepared significant audit adjustments after field work commenced.

Status: Fully Implemented

2015-B Schedule of Expenditures of Federal Awards

Initial Year Finding
Occurred: 2014

Finding Summary: The amounts reported on the SEFA were approximately \$768,000 higher than the final amounts reported for the year ended December 31, 2015.

Status: Fully Implemented