



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2021

City of Durango, Colorado

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Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and Members of the City Council
City of Durango, Colorado

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Durango (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated September 14, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing 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 City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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 a 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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2021-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Durango'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 financial statements. 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*.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Denver, Colorado
September 14, 2022



Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council
City of Durango, Colorado

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited City of Durango the City of Durango’s (The City) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the City’s major federal program for the year ended December 31, 2021. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and responses.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the City’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated September 14, 2022 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 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.



Denver, Colorado
September 14, 2022

City of Durango, Colorado
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

City of Durango, Colorado
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed- Through to Subrecipients
U.S. Department of Transportation:				
Direct Funding:				
Airport Improvement Program - AIP 53	20.106	N/A	\$ 12,432	\$ -
Airport Improvement Program - AIP 55	20.106	N/A	312	-
COVID-19 - Airport Improvement Program - AIP 56	20.106	N/A	1,545,854	-
COVID-19 - Airport Improvement Program - AIP 57	20.106	N/A	429,570	-
COVID-19 - Airport Improvement Program - AIP 58	20.106	N/A	41,811	-
Total Airport Improvement Program			<u>2,029,979</u>	<u>-</u>
Pass-Through Program From:				
Colorado Department of Transportation				
Highway Planning and Construction	20.205	18-HA5-XC-00074-M0002	33,896	-
Formula Grants for Rural Areas and Tribal Transit Program	20.509	20-HTR-ZL-03099	162,803	-
Formula Grants for Rural Areas and Tribal Transit Program	20.509	20-HTR-ZL-00242	619,217	-
Formula Grants for Rural Areas and Tribal Transit Program	20.509	20-HTR-ZL-03218-M0003	255,856	-
Formula Grants for Rural Areas and Tribal Transit Program	20.509	21-HTR-ZL-00338	150,000	-
Formula Grants for Rural Areas and Tribal Transit Program	20.509	21-HTR-ZL-03269	60,290	-
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	20-HTR-ZL-03133	66,896	-
Total Colorado Department of Transportation			<u>1,348,958</u>	<u>-</u>
Total U.S. Department of Transportation			<u>3,378,937</u>	<u>-</u>
U.S. Department of Treasury				
Pass-Through Program From:				
Colorado Department of Local Affairs				
COVID-19 - Coronavirus Relief Fund Program	21.019	CVRF CM-124	171,241	-
COVID-19 - American Rescue Plan	21.027	NEU-CO0160	41,612	-
Total U.S. Department of Treasury			<u>212,853</u>	<u>-</u>
U.S. Department of Homeland Security:				
Pass-Through Program From:				
Colorado Department of Homeland Security and Emergency Management				
Emergency Management Performance Grant	97.042	EMD-2021-EO-00004	30,000	-
Total U.S. Department of Homeland Security			<u>30,000</u>	<u>-</u>
U.S. Department of Housing and Urban Development:				
Pass-Through Program From:				
Colorado Department of Local Affairs				
Community Development Block Grant	14.228	19-047	51,000	51,000
Total U.S. Department of Housing and Urban Development			<u>51,000</u>	<u>51,000</u>
U.S. Department of Interior				
Bureau of Reclamation				
Direct Funding:				
Recreation Resources Management	15.524	R18AP00047	22,059	-
BLM Fuels Management and Community Fire Assistance	15.228	L20AC00395	72,666	-
Historic Preservation Fund Grants-In-Aid	15.904	*	855	-
Total U.S. Department of Interior			<u>95,580</u>	<u>-</u>
National Foundation on the Arts and the Humanities				
Promotion of the Arts Grants to Organization and Individuals	45.024	17-6200-7016	5,779	-
Total National Foundation on the Arts and the Humanities			<u>5,779</u>	<u>-</u>

See Notes to the Schedule of Expenditures of Federal Awards

City of Durango, Colorado
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed- Through to Subrecipients
Department of Justice				
Direct Funding:				
Missing Children's Assistance	16.543	N/A	3,700	-
Bulletproof Vest Partnership	16.607	N/A	6,780	-
Total Department of Justice			<u>10,480</u>	<u>-</u>
Institute of Museum and Library Services				
Pass-Through Program From:				
Colorado Department of Education COVID-19 - Grants to States	45.310	*	20,191	-
Total Institute of Museum and Library Services			<u>20,191</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 3,804,820</u>	<u>\$ 51,000</u>

See Notes to the Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes federal award activity of the City of Durango, Colorado (the City) under programs of the federal government for the year ended December 31, 2021. The information 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 City, it is not intended to and does not present the financial position, changes in net position / fund balance, or cash flows of the City.

Note B – Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting, except for 1) expenditures received from the Federal Aviation Administration (FAA) which are reported on the accrual basis of accounting, and 2) subrecipient expenditures, which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

Note C – Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major program:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2021-001 **Material Audit Adjustments**
Material Weakness

Criteria: The City is required to provide accurate GAAP basis financial data for preparation of the annual financial statements. Additionally, a good system of internal accounting control contemplates an adequate system for recording, processing and reconciling account balances to the financial statements.

Condition: Eide Bailly identified errors during 2021 that resulted in material audit adjustments, summarized as follows:

- It was determined during 2021 that an insurance premium related to 2022 was incorrectly accrued for and expensed in 2021 when the premium should have been expensed in the year ending December 31, 2022. As such, accrued payables and expenditures were materially overstated for the year ended December 31, 2021.
- It was determined during 2021 that the Business Improvement District (BID) failed to properly record property tax receivables and a related deferred inflow of resources for the 2021 assessed taxes due in 2022. As a result, receivables and deferred inflows of resources were materially understated for the year ended December 31, 2021.

Cause: The City's financial statement reconciliation controls failed to prevent, or detect on a timely basis, material errors in the financial statements that were noted. Specifically, management failed to properly record insurance premiums and assessed property taxes in the correct fiscal year.

Effect: Accrued payables and expenditures were overstated at December 31, 2021 within the self-insurance fund. Additionally, Property tax receivables and deferred inflows of resources were understated for the Business Improvement District. Management has posted correcting journal entries for each of the items noted to correct the errors and properly report the balances in the December 31, 2021 Annual Comprehensive Financial Report.

Recommendation: We recommend management improve controls surrounding the performance and approvals of reconciliations related to year-end financial close related to BID balances as well as year-end accrual entries. Department heads and/or key personnel within the accounting department may also consider performing secondary reviews to ensure accuracy of financial reporting to ensure proper GAAP required cutoff procedures have been followed.

Views of Responsible Officials: Agree

Section III – Federal Award Findings and Responses

No current year findings reported.