
CASTLE PINES NORTH
METROPOLITAN DISTRICT
AUDITOR COMMUNICATIONS
DECEMBER 31, 2022

DRAFT FOR
DISCUSSION PURPOSES
ONLY

Board of Directors and Management
Castle Pines North Metropolitan District
Castle Pines, Colorado

We have audited the financial statements of Castle Pines North Metropolitan District (the District) as of and for the year ended December 31, 2022, and have issued our report thereon dated [DATE]. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States, 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 January 4, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects Of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended December 31, 2022. We noted no transactions entered into during the year for which there was a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred. There are no instances where we consider a significant accounting practice that is acceptable under the applicable financial reporting framework not to be most appropriate to the particular circumstances of the District.

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no significant unusual transactions identified as a result of our audit procedures that were brought to the attention of management.

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 estimates affecting the financial statements are:

- Management's estimate of the depreciation expense is based upon management's estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the depreciable lives used to calculate depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's recognized proportionate share of the Public Employees' Retirement Association of Colorado's (PERA) net pension liability. We evaluated the net pension liability from the PERA report and the proportionate share of the District to determine if the amount recognized by management was reasonable.

The disclosures to the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the users of the financial statements. The most sensitive disclosures affecting the financial statements are:

- The disclosure of long-term debt in Note 4 to the financial statements
- The disclosure of the employee pension plan in Note 5 to the financial statements

Circumstances That Affect The Form And Content Of The Auditors' Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditors' report. There were no circumstances that caused us to modify our auditors' report.

Matters Resulting In Consultation Outside The Engagement Team

There were no significant matters which resulted in consultation outside of our engagement team.

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 misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no such uncorrected misstatements or omitted disclosures of the financial statements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule identifies misstatements that we identified as a result of our audit procedures that were brought to the attention of, and corrected by, management.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 attached management representation letter.

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 an entity's financial statements or a determination of the type of auditors' 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 District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the District as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 following deficiencies in District's internal control to be material weaknesses:

- Manual internal billing entries were incorrectly entered into the system, which resulted in an overstatement of revenues and expenses of \$519,762.
- Accounting entries related to transfers between funds were incorrectly entered into the accounting system, which resulted in the fund balance not rolling forward properly by \$616,091.
- Accounting entries related to the sale of water rights were not properly allocated to the General Fund, which resulted in an overstatement of revenue within the Water Fund of \$9,229,364.

A significant audit adjustment is a proposed correction to the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The existence of such material adjustments indicates that the District's system of controls did not detect and prevent such errors. Management should examine the adjustments required as a result of our audit and assess the cost-benefit of improving the internal control system to prevent the adjustments in the future. Management should address inherent limitations in the internal control system and modify their oversight function accordingly.

This information is intended solely for the information and use of the Members of the Board and Management of the District and is not intended to be and should not be used by anyone other than these specified parties.

[DATE]

Attachments

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SCHEDULE OF UNCORRECTED MISSTATEMENTS

None noted for the year ended December 31, 2022

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SCHEDULE OF CORRECTED MISSTATEMENTS

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		6002		
To roll equity in the current year.				
10-00-00-5450	Base Rental Expense		616,091.00	
50-00-00-3540	Fund Balances		616,091.00	
60-60-00-3500	Fund balance		1.00	
60-61-00-5230	Miscellaneous Expenses		1.00	
10-00-00-3500	Fund balance			616,091.00
50-00-00-4412	Base Rental Revenue			616,091.00
60-60-00-5230	Miscellaneous Expenses			1.00
60-61-00-3500	Fund balance			1.00
Total			<u>1,232,184.00</u>	<u>1,232,184.00</u>
Adjusting Journal Entries JE # 2		3020.1		
PBC Entry - To reclass June 2022 PCWRA Invoice as well as balancing funds for AJE 6 and 7.				
60-60-00-1125	ColoTrust MM Fund		56,183.00	
60-60-00-1125	ColoTrust MM Fund		140,893.00	
60-61-00-5167	PCWRA Sewer Fees		56,183.00	
60-60-00-5167	Professional Services - Water Rights			56,183.00
60-61-00-1125	ColoTrust Funds			56,183.00
60-61-00-1125	ColoTrust Funds			140,893.00
Total			<u>253,259.00</u>	<u>253,259.00</u>
Adjusting Journal Entries JE # 3		3020.1		
PBC Entry - Record Accrued PTO at year end.				
60-60-00-5111	Salaries Salaried		3,415.00	
60-61-00-5111	Salaries Salaried		3,824.00	
60-62-00-5111	Salaries Salaried		1,749.00	
60-60-00-2240	Accrued Vacation/Sick Leave			3,415.00
60-61-00-2240	Accrued Vacation/Sick Leave			3,824.00
60-62-00-2240	Accrued Vacation/Sick Leave			1,749.00
Total			<u>8,988.00</u>	<u>8,988.00</u>
Adjusting Journal Entries JE # 4		3020.1		
PBC Entry - Write Off 2019 Entry				
60-61-00-2200	Accrued Expense		9,997.00	
60-61-00-4250	Misc. Revenue			9,997.00
Total			<u>9,997.00</u>	<u>9,997.00</u>

SCHEDULE OF CORRECTED MISSTATEMENTS (CONTINUED)

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 5		3020.1		
PBC Entry - Reclass I&C invoices to water treatment				
60-60-00-5330	Water Treatment Plant R&M		51,044.00	
60-60-00-5360	Water Distribution R&M			51,044.00
Total			<u>51,044.00</u>	<u>51,044.00</u>
Adjusting Journal Entries JE # 6		3020.1		
PBC Entry - Capitalize waterline improvements				
60-60-00-1515	Building and Improvements		408,871.00	
60-61-00-5164	Engineering Services		3,228.00	
60-60-00-7746	Waterline Replacement			412,099.00
Total			<u>412,099.00</u>	<u>412,099.00</u>
Adjusting Journal Entries JE # 7		3020.1		
PBC Entry - Reclass Water & WW capital additions				
60-60-00-1515	Building and Improvements		180,459.00	
60-60-00-1515	Building and Improvements		1,648,187.00	
60-60-00-1520	Equipment		25,017.00	
60-60-00-1520	Equipment		26,776.00	
60-60-00-1520	Equipment		32,387.00	
60-60-00-1520	Equipment		61,125.00	
60-60-00-1520	Equipment		370,199.00	
60-60-00-1540	Improvements other than Bldg.		155,400.00	
60-60-00-1540	Improvements other than Bldg.		167,073.00	
60-60-00-1540	Improvements other than Bldg.		2,377,953.00	
60-60-00-1543	Improvements Water Dist.		1,538,903.00	
60-60-00-5330	Water Treatment Plant R&M		4,500.00	
60-61-00-5340	Lift Station - Repairs and Maintenance		137,665.00	
60-60-00-1550	Improvements Const. In Prog			1,538,903.00
60-60-00-5226	Water Meters			51,793.00
60-60-00-5320	Wells R&M			4,500.00
60-60-00-5320	Wells R&M			1,648,187.00
60-60-00-5330	Water Treatment Plant R&M			137,665.00
60-60-00-5330	Water Treatment Plant R&M			180,459.00
60-60-00-5330	Water Treatment Plant R&M			786,184.00
60-60-00-5330	Water Treatment Plant R&M			2,377,953.00
Total			<u>6,725,644.00</u>	<u>6,725,644.00</u>

SCHEDULE OF CORRECTED MISSTATEMENTS (CONTINUED)

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 8		3020.1		
PBC Entry - Wastewater CIP reclasses.				
60-61-00-1520	Equipment		84,876.00	
60-61-00-1549	PCWA Capacity		4,950,326.00	
60-61-00-1550	Improvements Const. In Prog			84,876.00
60-61-00-1550	Improvements Const. In Prog			4,950,326.00
Total			<u>5,035,202.00</u>	<u>5,035,202.00</u>
Adjusting Journal Entries JE # 9		3020.1		
PBC Entry - Enterprise Funds depreciation.				
60-60-00-6800	Depreciation Expense		1,135,717.00	
60-61-00-6800	Depreciation Expense		420,770.00	
60-62-00-6800	Depreciation		582.00	
60-60-00-1600	Accumulated Depreciation			1,135,717.00
60-61-00-1600	Accumulated Depreciation			420,770.00
60-62-00-1600	Accumulated Depreciation			582.00
Total			<u>1,557,069.00</u>	<u>1,557,069.00</u>
Adjusting Journal Entries JE # 10		3020.1		
PBC Entry - Record sale of water rights				
60-60-00-4407	Sale of Water Rights		3,980,213.00	
60-60-00-1542	Improvements Water Rights			3,980,213.00
Total			<u>3,980,213.00</u>	<u>3,980,213.00</u>
Adjusting Journal Entries JE # 11		3020.1		
PBC Entry - Cash allocation entries.				
60-60-00-1125	ColoTrust MM Fund		7,898,835.00	
60-60-00-1126	Colostrust Renewable Water Reserve			7,898,835.00
Total			<u>7,898,835.00</u>	<u>7,898,835.00</u>

SCHEDULE OF CORRECTED MISSTATEMENTS (CONTINUED)

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 12		5240		
Non-attest service to book GASB 68 entry.				
60-60-00-2510	Net Pension Liability		111,864.00	
60-60-00-2511	Deferred Outflows - Investment Earnings		16,856.00	
60-60-00-2512	Deferred Outflows - Contributions		16,009.00	
60-60-00-2515	Deferred Outflows - Experience		790.00	
60-60-00-2516	Deferred Outflows - Change in Assumptions		5,481.00	
60-61-00-2510	Net Pension Liability		104,130.00	
60-61-00-2511	Deferred Outflows - Investment Earnings		16,082.00	
60-61-00-2512	Deferred Outflows - Contributions		15,274.00	
60-61-00-2515	Deferred Outflows - Experience		754.00	
60-61-00-2516	Deferred Outflows - Change in Assumptions		5,230.00	
60-61-00-6000	Pension Expense		31,420.00	
60-62-00-2510	Net Pension Liability		13,342.00	
60-62-00-2511	Deferred Outflows - Investment Earnings		2,088.00	
60-62-00-2512	Deferred Outflows - Contributions		1,983.00	
60-62-00-2515	Deferred Outflows - Experience		98.00	
60-62-00-2516	Deferred Outflows - Change in Assumptions		679.00	
60-62-00-6000	Pension Expense		4,259.00	
60-60-00-2514	Deferred Inflows - Proportionate Share			24,207.00
60-60-00-2518	Deferred Inflows - Investment Earnings			42,820.00
60-60-00-6000	Pension Expense			83,703.00
60-60-RB-2519	Deferred Inflows - Experience			270.00
60-61-00-2514	Deferred Inflows - Proportionate Share			23,095.00
60-61-00-2518	Deferred Inflows - Investment Earnings			149,537.00
60-61-RB-2519	Deferred Inflows - Experience			258.00
60-62-00-2514	Deferred Inflows - Proportionate Share			2,999.00
60-62-00-2518	Deferred Inflows - Investment Earnings			19,417.00
60-62-RB-2519	Deferred Inflows - Experience			33.00
Total			<u>346,339.00</u>	<u>346,339.00</u>
Adjusting Journal Entries JE # 13		5240		
Reclassifying entry to true up GASB 68 activity since Deferred Inflows and Deferred Outflows were booked in the PY to one account instead of the various elements.				
60-60-00-6000	Pension Expense		42,398.00	
60-61-00-2900	Deferred Pension Inflows		105,592.00	
60-62-00-2900	Deferred Pension Inflows		13,499.00	
60-60-00-1900	Deferred Pension Outflows			42,398.00
60-61-00-1900	Deferred Pension Outflows			39,301.00
60-61-00-6000	Pension Expense			66,291.00
60-62-00-1900	Deferred Pension Outflows			5,023.00
60-62-00-6000	Pension Expense			8,476.00
Total			<u>161,489.00</u>	<u>161,489.00</u>

SCHEDULE OF CORRECTED MISSTATEMENTS (CONTINUED)

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 14		FS		
To reclassify the water fund transfer out of a R&M account and into a transfer account.				
RB-60-09	Interfund Transfer		18,519,263.00	
60-60-00-7713	Lower Dawson Well 2			18,519,263.00
Total			<u>18,519,263.00</u>	<u>18,519,263.00</u>
Adjusting Journal Entries JE # 15		4608		
To allocate the portion of proceeds on sale of water rights applicable to the general fund.				
10-00-00-5450	Base Rental Expense		9,229,364.00	
60-60-00-4407	Sale of Water Rights		9,229,364.00	
RB-10-01	Proceeds on Disposal of Water Rights			9,229,364.00
RB-60-09	Interfund Transfer			9,229,364.00
Total			<u>18,458,728.00</u>	<u>18,458,728.00</u>
Adjusting Journal Entries JE # 16		3022		
Client provided entry to correct internal billing error. Discovered as part of audit inquiry over expenses.				
10-00-00-1127	Citywide Bank		519,762.00	
60-60-00-4412	Water Service Charges		519,762.00	
10-20-00-5400	Irrigation Expense			519,762.00
60-60-00-1127	Citywide Bank			519,762.00
Total			<u>1,039,524.00</u>	<u>1,039,524.00</u>

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