

CITY OF CASTLE PINES NORTH, COLORADO

FINANCIAL STATEMENTS

December 31, 2008

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Honorable Mayor and Members of the City Council
City of Castle Pines North
Castle Pines North, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Castle Pines North as of and for the period from inception to December 31, 2008, which collectively comprise the basic financial statements of the City of Castle Pines North, as listed in the table of contents. These financial statements are the responsibility of the City of Castle Pines North's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City of Castle Pines North has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In our opinion, the financial statements referred above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Castle Pines North as of December 31, 2008, and the respective changes in financial position for the period from inception to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City of Castle Pines North will continue as a going concern. As discussed in Note 7 to the financial statements, the City of Castle Pines has suffered a significant loss in its initial period of operations and has a fund balance deficiency that raises substantial doubt about its ability to continue to meet its obligations as they become due without external assistance, significant revisions to its operations, or other similar actions. Management's plans in regard to these matters are described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Swanhorst & Company LLC

October 29, 2009

BASIC FINANCIAL STATEMENTS

CITY OF CASTLE PINES NORTH, COLORADO

STATEMENT OF NET ASSETS

December 31, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 376,392
Accounts Receivable	404,678
Property Taxes Receivable	667,698
Capital Assets, Not Being Depreciated	814,943
Capital Assets, Net of Accumulated Depreciation	<u>73,806,589</u>
 TOTAL ASSETS	 <u>76,070,300</u>
LIABILITIES	
Accounts Payable	1,236,489
Accrued Liabilities	144,000
Deferred Property Taxes	<u>667,698</u>
 TOTAL LIABILITIES	 <u>2,048,187</u>
NET ASSETS	
Invested in Capital Assets	74,621,532
Unrestricted	<u>(599,419)</u>
 TOTAL NET ASSETS	 <u>\$ 74,022,113</u>

The accompanying notes are an integral part of the financial statements.

CITY OF CASTLE PINES NORTH, COLORADO

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008

	<u>GENERAL</u>
ASSETS	
Cash	\$ 376,392
Accounts Receivable	404,678
Property Taxes Receivable	667,698
TOTAL ASSETS	\$ 1,448,768
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts Payable	\$ 1,236,489
Accrued Liabilities	144,000
Deferred Revenues	138,077
Deferred Property Taxes	667,698
TOTAL LIABILITIES	2,186,264
FUND BALANCES	
Unreserved, Reported in General Fund	(737,496)
TOTAL FUND BALANCES	(737,496)
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,448,768
 Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Total Fund Balances of Governmental Funds	\$ (737,496)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	74,621,532
Certain receivables are not available to pay current expenditures and, therefore, are deferred in the funds.	138,077
Total Net Assets of Governmental Activities	\$ 74,022,113

The accompanying notes are an integral part of the financial statements.

CITY OF CASTLE PINES NORTH, COLORADO

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 Inception to December 31, 2008

	<u>GENERAL</u>
REVENUES	
Sales and Use Taxes	\$ 606,423
Intergovernmental	5,652
Licenses and Permits	505
Charges For Services	190,813
Developer Reimbursements	<u>32,508</u>
TOTAL REVENUES	<u>835,901</u>
EXPENDITURES	
General Government	1,563,922
Public Safety	306
Parks and Recreation	<u>9,169</u>
TOTAL EXPENDITURES	<u>1,573,397</u>
NET CHANGE IN FUND BALANCES	(737,496)
FUND BALANCES, Beginning	<u>-</u>
FUND BALANCES, Ending	<u>\$ (737,496)</u>
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balances of Governmental Funds	\$ (737,496)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which contributed capital assets \$75,892,029 exceeded depreciation expense (\$1,270,497) in the current year.	74,621,532
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>138,077</u>
Change in Net Assets of Governmental Activities	<u>\$ 74,022,113</u>

The accompanying notes are an integral part of the financial statements.

CITY OF CASTLE PINES NORTH, COLORADO

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Castle Pines North (the “City”) was incorporated on February 12, 2008, as a statutory municipality as defined in State statutes. The City is governed by a Mayor and six-member council elected by the residents.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The more significant of the City’s accounting policies are described below.

Reporting Entity

In accordance with governmental accounting standards, the City has considered the possibility of including additional entities in its financial statements. The definition of the reporting entity is based primarily on financial accountability. The City is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if City officials appoint a voting majority of the organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the City. The City may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of this criteria, the City does not include additional organizations within its reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for the governmental fund.

CITY OF CASTLE PINES NORTH, COLORADO

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current year. Taxes and intergovernmental revenues associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

When both restricted and unrestricted resources are available for use, it is the City's practice to use restricted resources first, then unrestricted resources as they are needed.

In the fund financial statements, the City reports the following major governmental fund:

The *General Fund* is the City's primary operating fund. It is currently used to account for all financial activities of the City.

Assets, Liabilities and Net Assets/Fund Balances

Cash and Investments - Investments are reported at fair value.

Accounts Receivable - Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets - Capital assets, which include land and all infrastructure assets owned by the City, are reported in the government-wide financial statements. Infrastructure assets include streets, curbs and sidewalks, and drainage and traffic systems. Land and infrastructure assets were donated to the City by Douglas County upon the City's incorporation. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized.

CITY OF CASTLE PINES NORTH, COLORADO

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets/Fund Balances (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Infrastructure	15 - 50 years
Buildings and Improvements	20 - 30 years
Equipment	3 - 10 years
Vehicles	3 - 5 years

Deferred Revenues - Deferred revenues include intergovernmental revenues and developer reimbursements not collected within 60 days of the end of the current year. Property taxes earned but levied for a subsequent year are also reported as deferred revenues.

Net Assets/Fund Balances - In the government-wide financial statements, net assets are restricted when constraints placed on the net assets are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Property Taxes

Property taxes attach as an enforceable lien on property on January 1, are levied the following December, and are collected in the subsequent year. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's Office collects property taxes and remits to the City on a monthly basis.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

For the year ended December 31, 2008, the City did not adopt a budget. As provided in State statutes, the City was entitled to continuation of services from Douglas County until February 12, 2009, and no budget was required for those services because the appropriations were contained in the Douglas County budget. Furthermore, because the City completed its incorporation after the fiscal year began, the City was unable to meet the timelines set forth in State statutes to certify a property tax mill levy and adopt a budget.

State statutes require that all funds have legally adopted budgets and appropriations. The City will be required to follow these procedures when adopting budgets and appropriations in subsequent years.

- City management will submit to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget will include proposed expenditures and the means of financing them.

CITY OF CASTLE PINES NORTH, COLORADO

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgets (Continued)

- Public hearings will be conducted to obtain taxpayer comments.
- Prior to December 15, the budget will be legally enacted through passage of a resolution.
- Expenditures may not legally exceed appropriations at the fund level. City management is authorized to transfer budgeted amounts between departments within any fund. However, revisions that alter the total expenditures of any fund must be approved by the City Council.
- All appropriations lapse at year end.

Accountability

At December 31, 2008, the City's General Fund had a negative fund balance of \$737,496. Management's plans to eliminate this negative balance are described in Note 7.

NOTE 3: CASH AND INVESTMENTS

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all local government entities deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The financial institution is allowed to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2008, the City had bank deposits of \$126,394 collateralized with securities held by the financial institution's agent, but not in the City's name.

Investments

At December 31, 2008, the City had no investments. However, the City is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, concentration and custodial risk criteria in which local governments may invest, which include the following. State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for an extended period of time.

CITY OF CASTLE PINES NORTH, COLORADO

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

- Obligations of the United States and certain U.S. agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

NOTE 4: CAPITAL ASSETS

Capital asset activity for the period from inception to December 31, 2008, is summarized below.

	<u>Balances</u> 12/31/07	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 12/31/08
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ -	\$ 814,943	\$ -	\$ 814,943
Total Capital Assets, Not Being Depreciated	<u>-</u>	<u>814,943</u>	<u>-</u>	<u>814,943</u>
Capital Assets, Being Depreciated				
Infrastructure	-	75,077,086	-	75,077,086
Less Accumulated Depreciation				
Infrastructure	<u>-</u>	<u>(1,270,497)</u>	<u>-</u>	<u>(1,270,497)</u>
Total Capital Assets, Being Depreciated, Net	<u>-</u>	<u>73,806,589</u>	<u>-</u>	<u>73,806,589</u>
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 74,621,532</u>	<u>\$ -</u>	<u>\$ 74,621,532</u>

Depreciation expense was charged to the general government program.

NOTE 5: RISK MANAGEMENT

Public Entity Risk Pool

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. For these risks of loss, the City is a member of the Colorado Intergovernmental Risk Sharing Agency (CIRSA), a separate and independent governmental and legal entity formed by intergovernmental agreement by member municipalities pursuant to the provision of 24-10-115.5, Colorado Revised Statutes (1982 Replacement Volume) and Colorado Constitution, Article XIV, Section 18(2).

CITY OF CASTLE PINES NORTH, COLORADO

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 5: RISK MANAGEMENT (Continued)

Public Entity Risk Pool (Continued)

The purposes of CIRSA are to provide members defined liability, property, and workers compensation coverages and to assist members to prevent and reduce losses and injuries to municipal property and to persons or property which might result in claims being made against members of CIRSA, their employees and officers.

It is the intent of the members of CIRSA to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of CIRSA against stated liability of loss, to the limit of the financial resources of CIRSA. It is also the intent of the members to have CIRSA provide continuing stability and availability of needed coverages at reasonable costs. All income and assets of CIRSA shall be at all times dedicated to the exclusive benefit of its members.

CIRSA is a separate legal entity and the City does not approve budgets nor does it have ability to significantly affect the operations of CIRSA.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Service Agreement

The City entered into a management services agreement with CH2M Hill, Inc., to assist in the implementation, management, and operation of a wide range of services, include administrative and financial services, public works, community development, tax collection, permits, code enforcement, inspection services, and purchasing and contracting. For the period from inception to December 31, 2008, the City paid \$35,870 under this agreement. At December 31, 2008, the City's liability under this agreement totaled \$988,312.

Castle Pines North Master Association

The Castle Pines North Master Association (the "Association") incurred pre-incorporation costs totaling \$182,931. In September, 2009, the City agreed to reimburse the Association \$144,000 of these costs. A liability for this amount has been reported in the financial statements.

Tabor Amendment

In November 1992, Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which limits state and local government taxing powers and imposes spending limitations.

Pursuant to the incorporation election held in November, 2007, any proceeds from sales and use taxes, property taxes, and the investment income thereon shall be retained, collected and spent by the City without regard to any spending, revenue-raising or other limitation contained in Article X, Section 20, without limiting in any year the amount of other revenue that may be collected and spent by the City.

CITY OF CASTLE PINES NORTH, COLORADO

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 6: **COMMITMENTS AND CONTINGENCIES** (Continued)

Tabor Amendment (Continued)

The City is required to establish an emergency reserve, representing 3% of qualifying expenditures, as required by the Amendment. At December 31, 2008, the City did not have adequate fund balance to establish the reserve, estimated at \$25,000.

NOTE 7: **GOING CONCERN**

In its initial period of operations, the City suffered a significant loss from operations and has a fund balance deficiency that raises substantial doubt about its ability to continue to meet its obligations as they become due without external assistance, significant revisions to its operations, or other similar actions. Management has indicated that plans are in place to ensure that the City can meet its obligations. Those plans include restrictive approval and control processes by City Council for all expenditures, regardless of amount, bi-monthly financial reporting, and inclusion of short-term termination provisions of all contracts of material amount.