

CORNERSTONE METROPOLITAN DISTRICT NO. 1  
FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016

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**INDEPENDENT AUDITOR'S REPORT**

July 24, 2017

To the Board of Directors  
Cornerstone Metropolitan District No. 1

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Cornerstone Metropolitan District No. 1 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Cornerstone Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison statement for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Board of Directors  
Cornerstone Metropolitan District No. 1  
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**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cornerstone Metropolitan District No. 1's basic financial statements. The schedule of revenues, expenditures and changes in fund balance – budget and actual – water and sewer enterprise fund, is presented for purposes of additional analysis and is not a required part of the financial statement.

The budget to actual schedule for the water and sewer enterprise fund 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. Such information has been subjected to the auditing procedures applied in the audit of 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 revenues, expenditures and changes in net position – budget and actual – water and sewer enterprise fund, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Chadwick, Steinkirchner, Davis & Co., P.C.*

Grand Junction, Colorado

# **Cornerstone Metropolitan District No. 1 Management's Discussion and Analysis December 31, 2016**

As management of Cornerstone Metropolitan District No.1 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional supplementary information in addition to the basic financial statements and notes.

### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District is the installation of the roadway, sewer, and water systems in the District, as well as the ongoing operation and maintenance of the roadway system. The business-type activities of the District include the operations and maintenance of the domestic water distribution and sewer treatment systems.

The government-wide financial statements can be found on pages 8 and 9 of this report.

### **Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently has a General Fund, which is a governmental fund and the Water and Sewer Fund which is a proprietary fund.

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## **Governmental funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental funds financial statements are located on pages 10 through 13 of this report.

## **Proprietary funds**

The District maintains a proprietary fund commonly known as an enterprise fund. An Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses the enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 8-9, and 14-15 of this report. The District also presents a budgetary comparison for its proprietary fund on page 30.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found beginning on page 16 of this report.

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## Government-wide Financial Analysis

The following tables show condensed financial information derived from the government-wide financial statements comparing the current year to the prior year.

### Cornerstone Metropolitan District No. 1 Net Position

|   | Governmental<br>Activities |                    | Business-type<br>Activities |                   | Total             |                   |
|---|----------------------------|--------------------|-----------------------------|-------------------|-------------------|-------------------|
|   | 2016                       | 2015               | 2016                        | 2015              | 2016              | 2015              |
| <b>Assets:</b>                              |                            |                    |                             |                   |                   |                   |
| Current assets                              | 627,816                    | 892,783            | 53,737                      | 204,764           | 681,553           | 1,097,547         |
| Capital and other non-current assets        | 1,823,239                  | 1,890,033          | 10,983,494                  | 11,498,812        | 12,806,733        | 13,388,845        |
| <b>Total Assets</b>                         | <b>2,451,055</b>           | <b>2,782,816</b>   | <b>11,037,231</b>           | <b>11,703,576</b> | <b>13,488,286</b> | <b>14,486,392</b> |
| <b>Liabilities:</b>                         |                            |                    |                             |                   |                   |                   |
| Current liabilities                         | 36,465                     | 28,769             | -                           | 13,538            | 36,465            | 42,307            |
| Long-term and other non-current liabilities | 11,201,245                 | 10,643,446         | 463,397                     | 442,941           | 11,664,642        | 11,086,387        |
| <b>Total Liabilities</b>                    | <b>11,237,710</b>          | <b>10,672,215</b>  | <b>463,397</b>              | <b>456,479</b>    | <b>11,701,107</b> | <b>11,128,694</b> |
| <b>Net Position:</b>                        |                            |                    |                             |                   |                   |                   |
| Net Investment in capital assets            | 1,823,239                  | 1,890,033          | 10,983,494                  | 11,498,812        | 12,806,733        | 13,388,845        |
| Restricted for emergencies                  | 14,603                     | 15,596             | -                           | -                 | 14,603            | 15,596            |
| Unrestricted                                | (10,624,497)               | (9,795,028)        | (409,660)                   | (251,715)         | (11,034,157)      | (10,046,743)      |
| <b>Total Net Position</b>                   | <b>(8,786,655)</b>         | <b>(7,889,399)</b> | <b>10,573,834</b>           | <b>11,247,097</b> | <b>1,787,179</b>  | <b>3,357,698</b>  |

### Cornerstone Metropolitan District No. 1 Change in Net Position

|                                    | Governmental<br>Activities |                    | Business-type<br>Activities |                   | Total              |                  |
|------------------------------------|----------------------------|--------------------|-----------------------------|-------------------|--------------------|------------------|
|                                    | 2016                       | 2015               | 2016                        | 2015              | 2016               | 2015             |
| <b>Revenues:</b>                   |                            |                    |                             |                   |                    |                  |
| Program revenues:                  |                            |                    |                             |                   |                    |                  |
| Charges for services               | 123,266                    | 390,434            | 90,181                      | 93,243            | 213,447            | 483,677          |
| Operating grants and contributions | 297,154                    | 365,235            | -                           | -                 | 297,154            | 365,235          |
| Capital grants and contributions   | -                          | 872,460            | -                           | -                 | -                  | 872,460          |
| General revenues:                  |                            |                    |                             |                   |                    |                  |
| Interest and other revenue         | 1,847                      | -                  | -                           | -                 | 1,847              | -                |
| <b>Total Revenues</b>              | <b>422,267</b>             | <b>1,628,129</b>   | <b>90,181</b>               | <b>93,243</b>     | <b>512,448</b>     | <b>1,721,372</b> |
| <b>Expenses:</b>                   |                            |                    |                             |                   |                    |                  |
| General government                 | 102,836                    | 102,709            | -                           | -                 | 102,836            | 102,709          |
| Public works                       | 566,888                    | 440,867            | -                           | -                 | 566,888            | 440,867          |
| Public Safety                      | 2,000                      | 2,000              | -                           | -                 | 2,000              | 2,000            |
| Intergovernmental agreement        | -                          | -                  | -                           | -                 | -                  | -                |
| Interest on long-term debt         | 557,799                    | 556,275            | -                           | -                 | 557,799            | 556,275          |
| Water and Sewer                    | -                          | -                  | 853,444                     | 782,913           | 853,444            | 782,913          |
| <b>Total Expenses</b>              | <b>1,229,523</b>           | <b>1,101,851</b>   | <b>853,444</b>              | <b>782,913</b>    | <b>2,082,967</b>   | <b>1,884,764</b> |
| <b>Change in Net Position</b>      |                            |                    |                             |                   |                    |                  |
| <b>before Transfers</b>            | <b>(807,256)</b>           | <b>526,278</b>     | <b>(763,263)</b>            | <b>(689,670)</b>  | <b>(1,570,519)</b> | <b>(163,392)</b> |
| Transfers                          | (90,000)                   | (92,500)           | 90,000                      | 92,500            | -                  | -                |
| <b>Change in Net Position</b>      | <b>(897,256)</b>           | <b>433,778</b>     | <b>(673,263)</b>            | <b>(597,170)</b>  | <b>(1,570,519)</b> | <b>(163,392)</b> |
| <b>Net Position - Beginning</b>    | <b>(7,889,399)</b>         | <b>(8,323,177)</b> | <b>11,247,097</b>           | <b>11,844,267</b> | <b>3,357,698</b>   | <b>3,521,090</b> |
| <b>Net Position - Ending</b>       | <b>(8,786,655)</b>         | <b>(7,889,399)</b> | <b>10,573,834</b>           | <b>11,247,097</b> | <b>1,787,179</b>   | <b>3,357,698</b> |

The District is the “service district” in a dual district structure whereby the District has and will continue to construct and operate the infrastructure for the Cornerstone development. The District has entered into a District Facilities Construction and Service Agreement with Cornerstone Metropolitan District No. 2. Under the agreement, District No. 1 (the “Operating District”) is responsible for managing the construction of all facilities and improvements and for the operation and maintenance

of all improvements not conveyed to another public entity. District No. 2 (the “Taxing District”) is responsible for providing the funding for all infrastructure improvements and the revenue needed to support the ongoing operation and maintenance of the improvements and public facilities. Cornerstone Metropolitan District No. 2 is required, to the extent financially possible, to ultimately pay off the “capital obligation” for construction costs as well as the “service obligation” for the costs of operating and maintaining the facilities. If received, the District will use the funds received from Cornerstone Metropolitan District No. 2 to pay off the District’s debt. However, based on both the current and anticipated financial condition of District No. 2, it is currently not anticipated that District No. 2 will be able to provide the funding needed for the District to be able to pay off the debts it owes to the Developer, and as such the District has recorded an allowance for doubtful accounts from District No. 2 in the full amount of the receivable of \$11,019,554.

The District’s overall financial position, as measured by net position decreased by a total of \$1,570,519 because of the District’s inability to meet its’ debt service obligations for Developer Advances as well as depreciation on capital assets. The District’s revenues consisted primarily of intergovernmental agreement revenues received and accrued from District No. 2, and operations, water, and sewer fees received and accrued from District constituents. The primary expenses of the District are interest accruals on the District’s debt and operating and depreciation costs related to the District’s infrastructure.

### **Financial Analysis of the District’s Funds**

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### **Governmental funds**

The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District’s financing requirements. In particular, assigned and unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District’s governmental funds reported a combined ending fund balance of \$568,141 which is an increase of \$178,805. Of this fund balance, \$22,526 is nonspendable, \$14,603 is restricted for emergencies, \$425,000 is assigned for future road and public works costs, and \$106,0122 is unassigned, meaning that is available for spending at the District’s discretion.

#### **Proprietary funds**

The District’s proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the District’s proprietary fund reported an ending net position of \$10,573,834 of which \$10,983,494 is shown as Net Investment in Capital Assets and \$(409,660) as unrestricted.



### **Budget variances**

The District had significant amounts that had been billed but remained unpaid for water and sewer user fees. However, in 2016 the District received operations fees budgeted to be uncollectible as well as greater than budgeted transfers from District No. 2's resulting from collection of property taxes budgeted to be delayed. In previous years the District cut expenses where possible and continued those efforts into 2016. Details of the budgets can be seen on pages 13 of this report for governmental funds and page 30 for the Water and Sewer Fund.

### **Capital assets**

The District's investment in capital assets government-wide, net of accumulated depreciation decreased by \$582,112 as a result of depreciation expense. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statements on pages 22 of this report.

### **Long-term debts**

The District's long-term debts reflect no change in 2016 as there was no funding available to make any payments. Additional information can be found in the Notes to the Financial Statements beginning on page 32 of this report.

### **Economic conditions and outlook:**

For the 2014 budget District No. 2 increased the mill levy rate used to transfer funds to the District to 70 mills in order to partially offset the reduction in assessed values. Assessed values in District No. 2 are not expected to increase in the near term future nor are potential decreases expected to be as severe as experienced in the past two property reassessment years.

The District is dependent on the timely receipt of funds from District No.2 from payment of property taxes as well as general operations, water and sewer fees by the District constituents. Collection rates have increased but collection on the unsold and/or undeveloped residential lots, Club facilities, and open spaces now owned by the Cornerstone Owners Association and the District itself will not be timely collected, causing the District to be dependent on taxes and the remaining constituents to fund the ongoing costs of the District. See footnotes I and J on page 26 for additional information.

### **Request for information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Marchetti & Weaver, LLC, 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

Cornerstone Metropolitan District No. 1

STATEMENT OF NET POSITION

December 31, 2016

|  | Governmental<br>Activities | Business-Type<br>Activities | Total               |
|--|----------------------------|-----------------------------|---------------------|
| <b>ASSETS</b>                                      |                            |                             |                     |
| Investment in pooled cash and cash equivalents     | \$ 217,051                 | \$ 41,790                   | \$ 258,841          |
| Intergovernmental receivable                       | 365,029                    | -                           | 365,029             |
| Capital and service obligation, net                | -                          | -                           | -                   |
| Accounts receivable, net                           | 23,210                     | 11,947                      | 35,157              |
| Prepaid expense                                    | 22,526                     | -                           | 22,526              |
| Capital assets, net of accumulated depreciation    |                            |                             |                     |
| Land   | 184,600                    | -                           | 184,600             |
| Building and improvements                          | 741,817                    | -                           | 741,817             |
| Water and sewer infrastructure                     | -                          | 10,982,914                  | 10,982,914          |
| Roads  | 896,822                    | -                           | 896,822             |
| Equipment  | -                          | 580                         | 580                 |
| Total assets                                       | <u>2,451,055</u>           | <u>11,037,231</u>           | <u>13,488,286</u>   |
| <b>LIABILITIES</b>                                 |                            |                             |                     |
| Accounts payable                                   | 36,465                     | -                           | 36,465              |
| Accrued interest payable                           | 4,194,747                  | 123,397                     | 4,318,144           |
| Unearned revenue                                   | -                          | -                           | -                   |
| Developer advance payable - operations and capital | 7,006,498                  | -                           | 7,006,498           |
| Developer advance payable - water operations       | -                          | 340,000                     | 340,000             |
| Total liabilities                                  | <u>11,237,710</u>          | <u>463,397</u>              | <u>11,701,107</u>   |
| <b>NET POSITION</b>                                |                            |                             |                     |
| Investment in capital assets                       | 1,823,239                  | 10,983,494                  | 12,806,733          |
| Restricted for emergencies                         | 14,603                     | -                           | 14,603              |
| Unrestricted                                       | (10,624,497)               | (409,660)                   | (11,034,157)        |
| Total net position                                 | <u>\$ (8,786,655)</u>      | <u>\$ 10,573,834</u>        | <u>\$ 1,787,179</u> |

The accompanying footnotes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

STATEMENT OF ACTIVITIES

For the year ended December 31, 2016

| Function/Programs                            | Program Revenues     |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                          |                     |
|--|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
|  | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Business-Type Activities | Total               |
| <b>Primary government:</b>                   |                      |                                    |                                  |   |                          |                     |
| Governmental activities:                     |                      |                                    |                                  |   |                          |                     |
| General government                           | \$ 102,836           | \$ -                               | \$ -                             | \$ (102,836)                                      | \$ -                     | \$ (102,836)        |
| Public safety                                | 2,000                | -                                  | -                                | (2,000)   | -                        | (2,000)             |
| Public works                                 | 566,888              | 123,266                            | -                                | (443,622)   | -                        | (443,622)           |
| Intergovernmental agreement                  | -                    | 297,154                            | -                                | 297,154   | -                        | 297,154             |
| Interest and related costs on long-term debt | 557,799              | -                                  | -                                | (557,799)   | -                        | (557,799)           |
| Total primary government                     | <u>1,229,523</u>     | <u>123,266</u>                     | <u>297,154</u>                   | <u>(809,103)</u>                                  | <u>-</u>                 | <u>(809,103)</u>    |
| <b>Business-type activities</b>              |                      |                                    |                                  |   |                          |                     |
| Water and sewer                              | 853,444              | 90,181                             | -                                | -   | (763,263)                | (763,263)           |
| Total business-type activities               | <u>\$ 853,444</u>    | <u>\$ 90,181</u>                   | <u>\$ -</u>                      | <u>-</u>  | <u>(763,263)</u>         | <u>(763,263)</u>    |
| <b>General revenues (expenses):</b>          |                      |                                    |                                  |   |                          |                     |
| Interfund transfers                          |                      |                                    |                                  | (90,000)  | 90,000                   | -                   |
| Interest revenue                             |                      |                                    |                                  | 1,847   | -                        | 1,847               |
| Total general revenues and transfers         |                      |                                    |                                  | (88,153)  | 90,000                   | 1,847               |
| Change in net position                       |                      |                                    |                                  | (897,256)   | (673,263)                | (1,570,519)         |
| Net position - beginning                     |                      |                                    |                                  | (7,889,399)                                       | 11,247,097               | 3,357,698           |
| Net position - ending                        |                      |                                    |                                  | <u>\$ (8,786,655)</u>                             | <u>\$ 10,573,834</u>     | <u>\$ 1,787,179</u> |

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

Cornerstone Metropolitan District No. 1

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2016

|   | General<br>Fund |
|---|-----------------|
| <b>ASSETS</b>   |                 |
| Investments in pooled cash  | \$ 217,051      |
| Intergovernmental receivable  | 365,029         |
| Accounts receivable, net  | -               |
| Prepaid expense   | 22,526          |
| Total Assets  | \$ 604,606      |
| <b>LIABILITIES</b>  |                 |
| Accounts payable  | \$ 36,465       |
| Total liabilities   | 36,465          |
| <b>FUND BALANCES</b>  |                 |
| Non-spendable   | 22,526          |
| Restricted for emergencies  | 14,603          |
| Assigned for public works   | 425,000         |
| Unassigned  | 106,012         |
| Total fund balances   | 568,141         |
| Total liabilities and fund balance  | \$ 604,606      |
| Total governmental fund balance per above   | \$ 568,141      |
| Amounts reported for governmental activities in the statement of net position excluded from the governmental fund balance because:  |                 |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and are excluded from the funds.   |                 |
|   | 1,823,239       |
| Receivables owed to the District not available to cover current costs:  |                 |
| From customers  | 23,210          |
| From Cornerstone Metro District No. 2:  |                 |
| Delayed property tax receipts   | -               |
| Capital and service obligation  | 10,609,894      |
| Less allowance for uncollectible capital and service obligations  | (10,609,894)    |
| Long term liabilities not payable in the current year are excluded as liabilities in the governmental funds. Interest on long-term debt is recognized as an expenditure in governmental funds when due. These liabilities consist of: |                 |
| Developer advance payable   | (7,006,498)     |
| Accrued interest payable  | (4,194,747)     |
| Net position of governmental activities   | \$ (8,786,655)  |

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended December 31, 2016

|  | <u>General<br/>Fund</u>  |
|--|--------------------------|
| Revenues   |                          |
| Intergovernmental revenue - Cornerstone Metro District No. 2 | \$ 338,459               |
| Operations fee and interest, net of allowance                | 123,266                  |
| Interest income  | 1,847                    |
| Total general revenues                                       | <u>463,572</u>           |
| Expenditures   |                          |
| General Government   |                          |
| Accounting, management, and audit                            | 91,919                   |
| Dues and subscriptions                                       | 1,094                    |
| Insurance and bonds  | 17,878                   |
| Legal and professional fees                                  | 25,526                   |
| Other expense  | 38,741                   |
| Allocated overhead   | (72,322)                 |
| Public Safety  | 2,000                    |
| Public Works   |                          |
| Road repairs and maintenance                                 | 50,302                   |
| Legal and professional fees                                  | 11,813                   |
| Allocated overhead for road repairs and maintenance          | 27,816                   |
| Total expenditures   | <u>194,767</u>           |
| Excess of revenue over (under) expenditures                  | 268,805                  |
| Other financing sources(uses)                                |                          |
| Interfund transfers  | (90,000)                 |
| Net change in fund balance                                   | <u>178,805</u>           |
| Fund Balances:   |                          |
| Beginning of the year  | 389,336                  |
| End of the year  | <u><u>\$ 568,141</u></u> |

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES

For the year ended December 31, 2016

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Amounts reported for governmental activities in the statement of activities are different because:

|   |                     |
|---|---------------------|
| Net change in fund balance - governmental funds   | \$ 178,805          |
| Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay costs are capitalized and depreciated over the estimated useful life of the asset.  |                     |
| Depreciation expense  | (66,794)            |
| In the fund financial statements principal and interest costs on long term debt are recognized as expenses as payments are made. In the government wide statements interest costs are recognized as expenses when they are incurred.  |                     |
| Change in accrued interest on long-term debt  | (557,799)           |
| Capital and service obligations and long-term receivables reported in the Statement of Net Position are not available to cover current liabilities and therefore are not reported as revenues in the fund financial statements. These are the current changes in long term receivables that are recognized in the statement of activities but not in the fund financial statements. |                     |
| Increase in current year uncollectible receivables  | (410,163)           |
| Delayed property tax receipts recognized in prior years   | (41,305)            |
| Change in net position of governmental activities   | <u>\$ (897,256)</u> |

The accompanying notes are an integral part of the statement.

Cornerstone Metropolitan District No. 1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the year ended December 31, 2016

|   | Original and<br>Final Budget | Actual            | Variance<br>Favorable<br>(Unfavorable) |
|---|------------------------------|-------------------|--|
| <b>Revenues</b>                                 |                              |                   |  |
| Operations fee and interest, net of allowance   | \$ 45,200                    | \$ 125,113        | \$ 79,913                              |
| Intergovernmental agreement                     | 246,003                      | 338,459           | 92,456                                 |
| Total revenues                                  | <u>291,203</u>               | <u>463,572</u>    | <u>172,369</u>                         |
| <b>Expenditures</b>                             |                              |                   |  |
| General government                              |                              |                   |  |
| Accounting, management and audit                | 83,100                       | 91,919            | (8,819)                                |
| Dues and subscriptions                          | 1,100                        | 1,094             | 6                                      |
| Insurance and bonds                             | 25,984                       | 17,878            | 8,106                                  |
| Legal and professional fees                     | 40,000                       | 25,526            | 14,474                                 |
| Other expenses                                  | 31,080                       | 38,741            | (7,661)                                |
| Allocated overhead                              | (76,156)                     | (72,322)          | (3,834)                                |
| Contingency                                     | 15,000                       | -                 | 15,000                                 |
| Public safety                                   |                              |                   |  |
| Fire and emergency medical                      | 2,000                        | 2,000             | -                                      |
| Public works                                    |                              |                   |  |
| Road repair and maintenance                     | 71,800                       | 50,302            | 21,498                                 |
| Legal and professional fees                     | 10,612                       | 11,813            | (1,201)                                |
| Allocated overhead                              | 29,291                       | 27,816            | 1,475                                  |
| Contingency                                     | 10,000                       | -                 | 10,000                                 |
| Total expenditures                              | <u>243,811</u>               | <u>194,767</u>    | <u>49,044</u>                          |
| Excess of Revenues Over<br>(Under) Expenditures | 47,392                       | 268,805           | 221,413                                |
| <b>Other financing sources and (uses)</b>       |                              |                   |  |
| Interfund transfers                             | (143,000)                    | (90,000)          | 53,000                                 |
| Total other financing sources and (uses)        | <u>(143,000)</u>             | <u>(90,000)</u>   | <u>53,000</u>                          |
| Net change in fund balance                      | (95,608)                     | 178,805           | 274,413                                |
| Fund balance beginning of year                  | 339,064                      | 389,336           | 50,272                                 |
| Fund balance end of year                        | <u>\$ 243,456</u>            | <u>\$ 568,141</u> | <u>\$ 324,685</u>                      |

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
 PROPRIETARY FUND TYPE - WATER AND SEWER ENTERPRISE FUND

For the year ended December 31, 2016

|   | <u>Actual</u>        |
|---|----------------------|
| Operating revenues                      |                      |
| Water use fees                          | \$ 33,990            |
| Sewer use fees                          | 33,300               |
| Late fees                               | 22,891               |
| Total revenues                          | <u>90,181</u>        |
| Operating expenses                      |                      |
| Water operating expenses                | 62,320               |
| Sewer operating expenses                | 41,069               |
| Allocated overhead from General Fund    | 44,506               |
| Bad debts expense                       | 169,775              |
| Depreciation expense                    | 515,318              |
| Total operating expense                 | <u>832,988</u>       |
| Net operating (loss)                    | <u>(742,807)</u>     |
| Non-operating revenues (expenses)       |                      |
| Interest expense                        | (20,456)             |
| Transfer from general fund              | 90,000               |
| Total non-operating revenues (expenses) | <u>69,544</u>        |
| Change in net position                  | (673,263)            |
| Net position - beginning                | 11,247,097           |
| Net position - ending                   | <u>\$ 10,573,834</u> |

The accompanying notes are an integral part of this statement.



Cornerstone Metropolitan District No. 1

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE - WATER AND SEWER ENTERPRISE FUND

For the year ended December 31, 2016

|  |                           |
|--|---------------------------|
| <hr/>  |                           |
| Cash flows from operating activities   |                           |
| Cash received from customers   | \$ 77,327                 |
| Cash paid to suppliers for goods and services  | (131,938)                 |
| Cash paid to General Fund for allocated overhead   | (44,506)                  |
| Net cash provided by (used in) operating activities  | <u>(99,117)</u>           |
| <br>   |                           |
| Cash flows form non-capital financing activities   |                           |
| Transfers from governmental funds  | <u>90,000</u>             |
| Net cash provided by capital and related financing activities  | 90,000                    |
| <br>   |                           |
| Net increase (decrease) in cash and cash equivalents   | (9,117)                   |
| <br>   |                           |
| Cash and cash equivalents, beginning of year   | <u>50,907</u>             |
| <br>   |                           |
| Cash and cash equivalents, end of year   | <u><u>\$ 41,790</u></u>   |
| <br>   |                           |
| Reconciliation of operating income (loss) to net<br>cash provided (used) by operating activities:        |                           |
| Operating income (loss)  | \$ (742,807)              |
| Adjustments to reconcile operating income (loss)<br>to net cash provided (used) by operating activities: |                           |
| Depreciation expense   | 515,318                   |
| Bad debts expense  | 141,226                   |
| Increase (decrease) in deferred revenue  | (13,538)                  |
| (Increase) decrease in accounts receivable   | 684                       |
| Increase (decrease) in accounts payable  | <u>-</u>                  |
| Total adjustments  | <u>643,690</u>            |
| <br>   |                           |
| Net cash provided (used) by operating activities   | <u><u>\$ (99,117)</u></u> |

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE A – DEFINITION OF REPORTING ENTITY**

Cornerstone Metropolitan District No. 1 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized concurrently with Cornerstone Metropolitan District No. 2 (collectively the Districts) by District Court Order on November 15, 2004, as amended December 22, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32). The Districts' service area is located in both Montrose County and in Ouray County. The Districts operate under a Consolidated Service Plan to provide financing for the design, acquisition, construction and installation of essential public purpose facilities including streets, water, storm drainage, sanitary sewer, parks and recreation, transportation, television relay, mosquito control and fire protection, and the operation and maintenance of the Districts. Under the Service Plan, the District is intended to be the Operating District related to Cornerstone Metropolitan District No. 2, the Taxing District.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District has no employees and contracts for all of its management and professional services.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The more significant accounting policies of the District are described as follows:

1. Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities are normally supported by property taxes collected by District No. 2 and transferred to the District. Both statements distinguish between governmental activities, which normally are supported by taxes and business-type activities, which rely to a significant extent on fees and charges for support.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

1. Government-wide and Fund Financial Statements – Continued

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function of 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.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and enterprise funds are reported as separate columns in the fund financial statements.

2. 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 a liability is incurred, regardless of the timing of related cash flows. Expenditures for capital outlay are shown as increases in assets and redemption of long-term debts are recorded as a reduction in liabilities.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes transferred from District No. 2. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation paid.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

The Proprietary Fund accounts for operations that are operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be recovered primarily through user charges.

The District reports the following major proprietary funds:

The Water & Sewer Enterprise Fund accounts for the operation and maintenance of the communities' water and sewer systems.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes received from other governmental activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

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

3. Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification and publication requirements. The budget includes each fund presented on the modified accrual basis of accounting.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Capital Assets

Capital assets, including infrastructure assets (e.g. road, water, sewer improvements and similar items), are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, by the straight-line method. Depreciable lives of capital assets are as follows:

|                            |          |
|----------------------------|----------|
| Buildings and improvements | 30 years |
| Roads                      | 30 years |
| Water infrastructure       | 30 years |
| Sewer infrastructure       | 30 years |
| Equipment                  | 5 years  |

5. Fund Equity

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to be used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

5. Fund Equity–Continued

- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above. If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District’s policy to use the most restrictive classification first.

6. Fund Balance Classifications

The total fund balance of the governmental funds was \$568,141 as of December 31, 2016. Of this balance, \$22,526 was non-spendable since it had already been used to pre-pay 2017 expenditures, \$14,603 was restricted for emergencies, as required by TABOR, \$425,000 is assigned for future road and public works projects, and the remaining balance of \$106,012 is unassigned.

**NOTE C – CASH AND INVESTMENTS**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE C – CASH AND INVESTMENTS – CONTINUED**

As of December 31, 2016, the District’s cash deposits had a bank balance of \$10,958 and carrying balance of \$9,276, all of which was FDIC insured.

1. Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (\*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States, certain U.S. government agency securities and the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Bankers acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Guaranteed investment contracts
- \* Local government investment pools

The local government investment pools, which include the Colorado Surplus Asset Fund Trust (CSAFE) and the Colorado Local Government Liquid Asset Trust (Colostrust) are both rated AAAM by Standard & Poor’s.

As of December 31, 2016, the District had the following investments:

| <b>Investment</b>                         | <b>Maturity</b>                   | <b><u>Fair Value</u></b> |
|---|-----------------------------------|--------------------------|
| Colorado Surplus Asset Trust Fund (CSAFE) | Weighted average<br>under 60 days | <u>\$ 249,565</u>        |

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE C – CASH AND INVESTMENTS – CONTINUED**

2. CSAFE

During 2016, the District was invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by State statutes for local government entities to pool surplus funds. The State Securities Commission administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank serves as custodian for CSAFE's investment portfolio and serves as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. As of December 31, 2016, the District had \$249,565 invested in CSAFE.

**NOTE D – CAPITAL ASSETS**

An analysis of the changes in net capital asset during 2016 follows:

|   | Balance<br>December 31,<br>2015 | Additions           | Retirements | Balance<br>December 31,<br>2016 |
|---|---------------------------------|---------------------|-------------|---------------------------------|
| <b>Governmental Activities:</b>                               |                                 |                     |             |                                 |
| Capital assets, non-depreciable                               |                                 |                     |             |                                 |
| Land  | \$ 184,600                      | \$ –                | \$ –        | \$ 184,600                      |
| Capital assets, depreciable:                                  |                                 |                     |             |                                 |
| Buildings and improvements                                    | 780,860                         | –                   | –           | 780,860                         |
| Roads   | 1,222,939                       | –                   | –           | 1,222,939                       |
| Accumulated depreciation                                      | <u>(298,366)</u>                | <u>(66,793)</u>     | <u>–</u>    | <u>(365,159)</u>                |
| Governmental-type activities, depreciable capital assets, net | <u>1,705,433</u>                | <u>(66,793)</u>     | <u>–</u>    | <u>1,638,640</u>                |
| Governmental-type activities total capital assets, net        | <u>\$ 1,890,033</u>             | <u>\$ (66,793)</u>  | <u>\$ –</u> | <u>\$ 1,823,240</u>             |
| <br><b>Business- Type Activities:</b>                         |                                 |                     |             |                                 |
| Capital assets, depreciable:                                  |                                 |                     |             |                                 |
| Water and Sewer   | \$ 15,424,758                   | \$ –                | \$ –        | \$ 15,424,758                   |
| Equipment   | 5,800                           | –                   | –           | 5,800                           |
| Accumulated depreciation                                      | <u>(3,931,746)</u>              | <u>(515,319)</u>    | <u>–</u>    | <u>(4,447,065)</u>              |
| Business-type activities, depreciable capital assets, net     | <u>\$ 11,498,812</u>            | <u>\$ (515,319)</u> | <u>\$ –</u> | <u>\$ 10,983,493</u>            |

Depreciation expense charged in 2016 to the governmental and enterprise functions of the District were \$66,793 and \$515,319, respectively.



Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE E – LONG-TERM CAPITAL AND SERVICE OBLIGATIONS RECEIVABLE**

Cornerstone Metropolitan District No. 2 is obligated under the Master Intergovernmental Agreement between the Districts to provide funding for all public infrastructure improvements (capital obligation) and to provide the revenue needed to support the ongoing operation and maintenance of the improvements and public facilities (service obligation). During 2013 property values in Montrose and Ouray counties were re-assessed and lowered thus decreasing the property taxes to be collected by District No. 2 in 2014. The decrease has diminished the ability for District No. 2 to pay its bonds and in turn to pay its capital and service obligation to District No. 1. Management has determined that the long-term receivable in District No. 1 for this capital and service obligation should be reduced to \$0 by recording an allowance for uncollectable accounts equal to the receivable.

The long term service obligation and related allowance for un-collectability is as follows at December 31, 2016:

|  | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> |
|--|------------------------------------|-------------------------------------|
| Capital and service obligation receivable, December 31, 2016 | \$ 10,609,894                      | \$ 409,660                          |
| Allowance for uncollectable obligation                       | <u>(10,609,894)</u>                | <u>(409,660)</u>                    |
| Capital and service obligation, net                          | <u>\$ —</u>                        | <u>\$ —</u>                         |

**NOTE F – LONG-TERM LIABILITIES**

The following is an analysis of changes in the District’s long- term debt for the year ended December 31, 2016:

|                         | <u>Balance<br/>December 31,<br/>2015</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance<br/>December 31,<br/>2016</u> | <u>Due<br/>Within<br/>One Year</u> |
|-------------------------|--|------------------|-----------------|--|------------------------------------|
| Developer advance       |  |                  |                 |  |                                    |
| General fund operations | \$ 212,260                               | \$ —             | \$ —            | \$ 212,260                               | \$ —                               |
| Water and Sewer fund    | 340,000                                  | —                | —               | 340,000                                  | —                                  |
| Capital                 | <u>6,794,238</u>                         | <u>—</u>         | <u>—</u>        | <u>6,794,238</u>                         | <u>—</u>                           |
|                         | <u>\$ 7,346,498</u>                      | <u>\$ —</u>      | <u>\$ —</u>     | <u>\$ 7,346,498</u>                      | <u>\$ —</u>                        |

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE G – LONG-TERM LIABILITIES – CONTINUED**

1. Developer Advances

The District has entered into an Advance and Reimbursement Agreement (the Acquisition Agreement) with the original Developer where the Developer is to provide for the advancement of certain monies to the District for capital improvement costs and operation and maintenance costs. Pursuant to the agreement, the Developer has agreed to advance amounts not to exceed the aggregate of \$7,000,000 for capital improvement costs and \$1,000,000 for operating and maintenance costs. The District agrees to repay the Developer, along with accrued interest, at a rate of 6% simple interest. The agreements do not constitute a multiple-fiscal year obligation. Due to the sale of the remaining property of the original Developer, the agreement was not renewed for 2012 or subsequent years; however, the District continues to report the amounts owed that had previously been advanced. As of December 31, 2016 outstanding advances totaled \$552,260 for operations and \$0 for capital, plus accrued interest of \$220,926.

Pursuant to an Amended and Restated Infrastructure Acquisition Agreement (the Acquisition Agreement), entered into on November 18, 2008 with the original Developer, the District has agreed to purchase, using the proceeds of available funds, certain public improvements the Developer has provided on the District's behalf with the understanding that the District would acquire such improvements from the Developer at some future point in time. Advances made to the District will accrue interest at a rate of 8% until paid. This agreement does not constitute a multi-year fiscal obligation. Any infrastructure acquisitions which cannot be immediately reimbursed to the Developer shall be added to the balance owed to the Developer. However, pursuant to the Service Plan of the Districts, the Districts are limited to a total debt limit of \$30,000,000. Acquisitions which would cause the total debt of the District to exceed this cap will therefore be a contribution to the District from the Developer and will not be shown as a liability due to the Developer. This agreement was also not renewed for 2012 or subsequent years; however, the District continues to report the amounts owed from previous acceptances from which funds were not available to reimburse the Developer. As of December 31, 2016, outstanding advances total \$6,794,238 and accrued interest totals \$4,097,218. Although the District does not currently, nor does it ever expect to have the ability to repay these amounts, the District is required to report the balances as being owed.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE G – LONG-TERM LIABILITIES – CONTINUED**

2. Debt Authorization

On November 2, 2004, the District electors authorized the issuance of indebtedness totaling \$787,500,000 at an interest rate not to exceed 12%. However, pursuant to the Service Plan, the District will not issue more than \$30,000,000 in indebtedness. The following schedule shows the amounts authorized and unissued as of December 31, 2016:

|                                   | Authorized<br>November 2,<br>2004 | Authorization<br>Used,<br>Series 2006 | Remaining at<br>December 31,<br>2014 |
|-----------------------------------|-----------------------------------|---------------------------------------|--------------------------------------|
| Streets                           | \$ 60,000,000                     | \$ –                                  | \$ 60,000,000                        |
| Traffic & safety                  | 60,000,000                        | –                                     | 60,000,000                           |
| Water                             | 60,000,000                        | 17,508,480                            | 42,491,520                           |
| Sanitary sewer and storm drainage | 60,000,000                        | 3,611,520                             | 56,388,480                           |
| Parks and recreation              | 60,000,000                        | –                                     | 60,000,000                           |
| Transportation                    | 60,000,000                        | –                                     | 60,000,000                           |
| Television relay                  | 60,000,000                        | –                                     | 60,000,000                           |
| Mosquito control                  | 60,000,000                        | –                                     | 60,000,000                           |
| Fire and ambulance                | 60,000,000                        | –                                     | 60,000,000                           |
| Operations and maintenance        | 60,000,000                        | –                                     | 60,000,000                           |
| Intergovernmental contracts       | 60,000,000                        | –                                     | 60,000,000                           |
| Reimbursement agreements          | 60,000,000                        | –                                     | 60,000,000                           |
| Management services               | 7,500,000                         | –                                     | 7,500,000                            |
| Refunding of debt                 | <u>60,000,000</u>                 | <u>–</u>                              | <u>60,000,000</u>                    |
| Total                             | <u>\$ 787,500,000</u>             | <u>\$ 21,120,000</u>                  | <u>\$ 766,380,000</u>                |

**NOTE H – NET POSITION**

The District has net position consisting of three components – investment in capital assets of \$12,806,733, restricted of \$14,603 and unrestricted of (\$11,034,157).

Investment in capital assets consists of capital assets, net of accumulated depreciation.

Restricted assets include net position that are restricted for use either externally imposed by grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position of \$14,603 as of December 31, 2016 which is restricted for emergencies as required by Colorado legislation.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE I – RELATED PARTIES**

During 2015, the District and the Cornerstone Owners Association (COA) received property from owners as a result of foreclosure proceedings by the District and litigation by the COA. Some of the members on the Board of Directors for the District are also on the Board of Directors for the Cornerstone Owners Association (COA). The COA owns the majority of the property owned by the previous developer and is in the process of marketing the properties for sale to a new developer. The properties owned by the COA represent a significant portion of the accounts receivable balances owed to the District for past due operations fees and water and sewer fees. Since the COA was forced to cancel their original contract for the sale of the properties to a new developer during 2017, the District has recorded an allowance for the entire balance due from the COA at December 31, 2016.

**NOTE J – ECONOMIC DEPENDENCY AND SUBSEQUENT EVENTS**

As discussed in Note I, a significant portion of the properties within the District are owned by the District itself and the COA. Some of the properties were transferred subject to the receivable balances of the District which reduced the value of the donation. It is anticipated that the District will collect all or a portion of these balances when the COA and the District sell and/or lease the property to a new developer.

Until a sale of these properties occurs, the District will continue to be dependent on the limited property tax funding from District No. 2 and fee payments from the remaining customers. As of December 31, 2016 the District has a total balance of \$1,140,506 owed from customers, including the COA and the District itself. However the District has reported a net balance of \$35,157 which may be collectible in future years as generally accepted accounting principles do not allow an entity to report a receivable from itself or for amounts that may not be collectible in the Statement of Net Position.

**NOTE K – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE K – RISK MANAGEMENT – CONTINUED**

The District pays annual premiums to the Pool for liability, property and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**NOTE L – INTERGOVERNMENTAL AGREEMENTS**

1. District Facilities Construction and Service Agreement

On December 16, 2004, the Districts entered into a Districts Facilities Construction and Service Agreement (the Master IGA). The Master IGA provides that the District is to construct, own, maintain and operate the facilities benefiting Cornerstone Metropolitan District No. 2 as provided by the Consolidated Service Plan. Cornerstone Metropolitan District No. 2 is to finance such activities from their annual certification of a mill levy, specific ownership taxes and development fees. The mill levy of District No. 2 is limited by the Service Plan as amended in 2013, wherein the maximum operations mill levy was removed, and the maximum debt mill levy is not to exceed 40.000 mills.

2. District Water Agreements

Pursuant to an Agreement for Construction of Water Delivery Infrastructure dated December 16, 2004 between the Original Developer and the Tri- County Water Conservancy District, the Developer is to design, install and warranty the water delivery infrastructure necessary to serve the Development, together with necessary system enhancements in accordance with the terms of the agreement. The Original Developer has assigned all of its interest in the Agreements for Construction of Water Delivery Infrastructure to the District pursuant to an Assignment Agreement dated February 21, 2006, between the Original Developer and the District (as amended, the Assignment Agreement). Additionally, pursuant to a Potable Water Service Agreement dated August 18, 2004 between the Original Developer and the Tri-County Water Conservancy District, the Original Developer is responsible for the purchase and delivery of potable water to the Development. The Original Developer has assigned all of its interests in and to the Potable Water Service Agreement to the District pursuant to the Assignment Agreement.

3. Dave Wood Road Agreement

On July 10, 2008 the District entered into an agreement with Ouray County for additional access to the subdivision through Dave Wood Road. The agreement provides a mechanism for joint funding of maintenance costs related to Dave Wood Road whereby the District shall make an annual contribution to Ouray County of 10% of the budgeted amount established by the DWR Maintenance Plan and Budget for the upcoming year. During 2016, \$0 was paid by the District pursuant to the agreement.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE L – INTERGOVERNMENTAL AGREEMENTS – CONTINUED**

4. Government Springs Road Maintenance Agreement

On May 1, 2006 the District entered into an agreement with Ouray County and Cornerstone Montrose LLC, (the original Developer) which provides a mechanism for joint funding of maintenance costs related to Government Springs Road. Government Springs Road is the primary access to the subdivision and per the agreement, the District shall make an annual contribution to Ouray County of 80% of the budgeted amount established by the GSR Maintenance Plan and Budget for the upcoming year. During 2016, \$0- was paid by the District pursuant to the agreement.

5. Montrose Fire Protection District Agreement

On June 23, 2009, the District (CMD) entered into an agreement with Montrose Fire Protection District to provide joint support in the event of an emergency at the Cornerstone subdivision. Per the agreement, the Fire District agrees to provide, when available, fire protection and emergency medical services within the subdivision. CMD will supplement the Fire District's efforts using a reserve of volunteers and equipment supplied by Horsefly Volunteer Fire District, which the District is a member of, and all costs associated with a response by the Fire District to an event at Cornerstone shall reimbursed to the Fire District by CMD.

CMD may then seek reimbursement from the owner of the property involved in the incident. In the event of a medical response, the Fire District shall assess any related fees directly to the patient receiving the emergency medical services. During 2016, \$0 was paid by the District pursuant to the agreement.

**NOTE M – TAX, SPENDING AND DEBT LIMITATIONS**

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). At December 31, 2016, the District had an emergency reserve of \$14,603. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE M – TAX, SPENDING AND DEBT LIMITATIONS – CONTINUED**

On November 2, 2004, the District's voters authorized the District to increase property taxes up to \$60,000,000 annually, without limitation to rate, to pay the District's operations, maintenance and other expenses. The election also allows the District to collect, spend and retain all revenues without regard to the limitations contained within Article X, Section 20 of the Colorado constitution.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

## **Supplementary Information**



Cornerstone Metropolitan District No. 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN NET  
POSITION - BUDGET AND ACTUAL - WATER AND SEWER ENTERPRISE FUND

For the year ended December 31, 2016

|   | Original and<br>Final Budget | Actual              | Variance<br>Favorable<br>(Unfavorable) |
|---|------------------------------|---------------------|--|
| <b>Revenues</b>   |                              |                     |  |
| Water use fees  | \$ 38,400                    | \$ 33,990           | \$ (4,410)                             |
| Sewer use fees  | 31,050                       | 33,300              | 2,250                                  |
| Late fees   | 30,000                       | 22,891              | (7,109)                                |
| Allowance for delayed receipts  | (59,250)                     | (28,549)            | 30,701                                 |
| Transfer from General Fund  | 143,000                      | 90,000              | (53,000)                               |
| Total revenues  | <u>183,200</u>               | <u>151,632</u>      | <u>(31,568)</u>                        |
| <b>Expenditures</b>   |                              |                     |  |
| <b>Water operations</b>   |                              |                     |  |
| Purchased treated water   | 3,330                        | 2,504               | 826                                    |
| Utilities   | 16,800                       | 16,894              | (94)                                   |
| Engineering and contracted services   | 27,000                       | 28,765              | (1,765)                                |
| Operations and maintenance  | 31,900                       | 14,157              | 17,743                                 |
| Allocated overhead from General Fund  | 35,149                       | 33,379              | 1,770                                  |
| <b>Sewer operations</b>   |                              |                     |  |
| Utilities   | 1,560                        | 1,515               | 45                                     |
| Engineering and contracted services   | 41,000                       | 38,300              | 2,700                                  |
| Operations and maintenance  | 3,850                        | 1,254               | 2,596                                  |
| Allocated overhead from General Fund  | 11,716                       | 11,127              | 589                                    |
| Contingency   | 10,000                       | -                   | 10,000                                 |
| Total expenditures  | <u>182,305</u>               | <u>147,895</u>      | <u>34,410</u>                          |
| Net income non-GAAP basis   | <u>\$ 895</u>                | 3,737               | <u>\$ 2,842</u>                        |
| <b>Reconciling differences between budgetary basis and<br/>generally accepted accounting principles (GAAP):</b> |                              |                     |  |
| Accrued interest expense  |                              | (20,456)            |  |
| Allowance for uncollectibles  |                              | (141,226)           |  |
| Depreciation expense  |                              | <u>(515,318)</u>    |  |
| Net loss (GAAP Basis)   |                              | <u>\$ (673,263)</u> |  |