

Cornerstone Metropolitan District No. 1

Annual Financial Report

December 31, 2011

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Report of Independent Certified Public Accountants

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, each major fund, and the aggregate remaining fund information of Cornerstone Metropolitan District No. 1 (the "District") as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cornerstone Metropolitan District No. 1's management. Our responsibility is to express an opinion 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 opinion.

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, each major fund, and the aggregate remaining fund information of the District, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the District's financial statements as a whole. The Supplementary Information is presented for purposes of additional analysis and are not a required part of the financial statements. The Statement of Revenue, Expenditures and Changes in Fund Balance – Actual and Budget – Governmental Fund Type – Capital Projects Fund and the Statement of Revenue, Expenditures and Changes in Fund Balance – Actual and Budget Water and Sewer Enterprise Fund are the responsibility of management and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Haynie & Co.

Littleton, Colorado
September 20, 2012

Cornerstone Metropolitan District No. 1 Management's Discussion and Analysis December 31, 2011

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, 2011.

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 Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 systems.

The government-wide financial statements can be found on pages 1 and 2 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 three funds. The General Fund and Capital Projects Fund are governmental funds and the Water and Sewer Fund is a proprietary fund.

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2011**

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 3 through 6 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 proprietary fund financial statements provide separate information for each of the business-type services provided by the District, each of which is considered to be a major fund of the District.

The basic proprietary fund financial statements can be found on pages 7 through 8 of this report. The District also presents a budgetary comparison for its proprietary funds on page 24.

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 on pages 9 – 22 of this report.

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2011**

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's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current assets	143,244	123,146	71,317	57,683	214,561	180,829
Capital and other non-current assets	9,390,379	8,846,042	13,843,674	14,158,254	23,234,053	23,004,296
Total Assets	9,533,623	8,969,188	13,914,991	14,215,937	23,448,614	23,185,125
Liabilities:						
Current liabilities	16,154	56,556	-	-	16,154	56,556
Long-term and other non-current liabilities	8,416,823	7,771,222	361,285	246,178	8,778,108	8,017,400
Total Liabilities	8,432,977	7,827,778	361,285	246,178	8,794,262	8,073,956
Net Assets:						
Invested in fixed assets, net of related debt	1,100,646	1,141,410	13,553,706	13,969,759	14,654,352	15,111,169
Restricted for emergencies	6,097	6,334	-	-	6,097	6,334
Unrestricted	(6,097)	(6,334)	-	-	(6,097)	(6,334)
Total Net Assets	1,100,646	1,141,410	13,553,706	13,969,759	14,654,352	15,111,169

Cornerstone Metropolitan District No.1's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	-	-	429,931	226,103	429,931	226,103
Operating grants and contributions	263,425	707,581	101,473	211,192	364,898	918,773
Capital grants and contributions	632,866	761,919	-	15,000	632,866	776,919
General revenues:						
Interest and other revenue	322	5,723	-	-	322	5,723
Total Revenues	896,613	1,475,223	531,404	452,295	1,428,017	1,927,518
Expenses:						
General government	63,306	370,115	-	-	63,306	370,115
Public works	114,615	106,589	-	-	114,615	106,589
Public Safety	66,090	74,195	-	-	66,090	74,195
Intergovernmental agreement	47,765	15,779	-	-	47,765	15,779
Conveyance of capital assets	-	-	-	-	-	-
Interest on long-term debt	549,104	949,309	-	-	549,104	949,309
Water and Sewer	-	-	1,043,954	963,237	1,043,954	963,237
Total Expenses	840,880	1,515,987	1,043,954	963,237	1,884,834	2,479,224
Change in Net Assets before Transfers						
	55,733	(40,764)	(512,550)	(510,942)	(456,817)	(551,706)
Capital transfers	(96,497)	-	96,497	-	-	-
Change in Net Assets	(40,764)	(40,764)	(416,053)	(510,942)	(456,817)	(551,706)
Net Assets - Beginning	1,141,410	1,182,174	13,969,759	14,480,701	15,111,169	15,662,875
Net Asset - Ending	1,100,646	1,141,410	13,553,706	13,969,759	14,654,352	15,111,169

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2011**

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. The District will use the funds received from Cornerstone Metropolitan District No. 2 to pay off the District’s debt.

The District’s overall financial position, as measured by net assets, decreased by a total of \$456,817, which is due to depreciation of the District’s infrastructure in excess of capital additions. The District’s revenues consisted primarily of intergovernmental agreement revenues received and accrued from District No. 2. 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 \$127,090, which is a increase of \$60,500. Of this fund balance, \$11,729 of this is nonspendable and \$6,097 is restricted for emergencies. The remainder of the combined fund balance of \$109,264 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 ending net assets of \$13,553,706, all of which is shown as Invested in Capital Assets, Net of Related Debt. The reason for this is that like the Governmental Activities, all increases and decreases from the District’s operations are recorded as being due from or to Cornerstone Metropolitan District No. 2.

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2011**

Budget variances

The District operated favorable to budget, which is primarily the result of savings in snowplowing and infrastructure acceptance costs. Details of the budgets can be seen on pages 6 and 23 of this report for governmental funds and page 24 for the Water and Sewer Fund.

Capital assets

The District's investment in capital assets government-wide, net of accumulated depreciation decreased by \$456,817 as a result of current year depreciation expense being greater than capital additions. 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 15 of this report.

Long-term debts

The District's long-term debts increased by \$196,497 due to Developer Advances for infrastructure acceptances as well as water and sewer fund shortfalls. Additional information can be found in the Notes to the Financial Statements on page 16 of this report.

Economic Conditions and Outlook:

The County Assessor reassessed the value of the property in District No. 2 effective January 1, 2012 which are used to set 2011 property taxes payable in 2012. The valuations reflect a reduction in the District No.2's assessed value of 32%. For the 2012 budget District No. 2 increased the mill levy rate used to transfer funds to the District to the maximum of 20 mills to offset the reduction in assessed values. However, if further declines are experienced in future the years District No.2 will be forced to lower the mill levy down as far as 15 mills which will dramatically reduce the funding made available to the District for operations.

The District is dependent on the timely receipt of funds from District No.2 from payment of property taxes as well as water and sewer fees by the District constituents. Due to delinquencies on payment of both taxes and fees by the Developer and Club, the District encountered significant cash flow issues in 2012 that may continue to limit the ability of the District to provide services to the community.

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 Robertson & Marchetti, PC, 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

Basic Financial Statements

Cornerstone Metropolitan District No. 1
Statement of Net Assets
December 31, 2011

Assets	Governmental Activities	Business- Type Activities	Total
Investments in pooled cash	\$ 125,857	\$ 31,548	\$ 157,405
Intergovernmental receivable	5,658	-	5,658
Accounts receivable	-	39,769	39,769
Prepaid expenses	11,729	-	11,729
Non-Current service obligation receivable due from Cornerstone Metro Dist. No. 2	4,149,846	289,968	4,439,814
Non-Current capital obligation receivable due from Cornerstone Metro Dist. No. 2	4,139,887	-	4,139,887
Capital assets, net of depreciation:			-
Water and sewer infrastructure	-	13,553,706	13,553,706
Roads	1,100,646	-	1,100,646
Total assets	<u>9,533,623</u>	<u>13,914,991</u>	<u>23,448,614</u>
Liabilities			
Accounts payable	16,154	-	16,154
Accrued interest payable	1,410,325	21,285	1,431,610
Developer advance payable - general operations	212,260	-	212,260
Developer advance payable - water operations	-	340,000	340,000
Developer advance payable - capital	6,794,238	-	6,794,238
Total liabilities	<u>8,432,977</u>	<u>361,285</u>	<u>8,794,262</u>
Net Assets			
Invested in capital assets, net of related debt	1,100,646	13,553,706	14,654,352
Restricted for emergencies	6,097	-	6,097
Unrestricted	(6,097)	-	(6,097)
Total Net Assets	<u>1,100,646</u>	<u>13,553,706</u>	<u>14,654,352</u>
Total Liabilities and Net Assets	<u>\$ 9,533,623</u>	<u>\$13,914,991</u>	<u>\$ 23,448,614</u>

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

Cornerstone Metropolitan District No. 1
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 63,306	\$ -	\$ -	\$ -	\$ (63,306)	\$ -	\$ (63,306)
Public works	114,615	-	-	-	(114,615)	-	(114,615)
Public safety	66,090	-	-	-	(66,090)	-	(66,090)
Intergovernmental agreement	47,765	-	263,425	632,866	848,526	-	848,526
Interest and related costs on long term debt	549,104	-	-	-	(549,104)	-	(549,104)
	<u>840,880</u>	<u>-</u>	<u>263,425</u>	<u>632,866</u>	<u>55,411</u>	<u>-</u>	<u>55,411</u>
Business-type activities							
Water and sewer	1,043,954	429,931	-	-	-	(614,023)	(614,023)
Intergovernmental agreement	-	-	101,473	-	-	101,473	101,473
	<u>1,043,954</u>	<u>429,931</u>	<u>101,473</u>	<u>-</u>	<u>-</u>	<u>(512,550)</u>	<u>(512,550)</u>
General revenues:							
Investment income					322	-	322
Transfer of capital assets					(96,497)	96,497	-
Total general revenues and transfers					<u>(96,175)</u>	<u>96,497</u>	<u>322</u>
Change in net assets					(40,764)	(416,053)	(456,817)
Net assets - beginning of year					1,141,410	13,969,759	15,111,169
Net assets - end of year					<u>\$ 1,100,646</u>	<u>\$ 13,553,706</u>	<u>\$ 14,654,352</u>

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

Cornerstone Metropolitan District No. 1
Governmental Funds Balance Sheet
and Reconciliation of Fund Balances to Net Assets
December 31, 2011

Assets	General Fund	Capital Projects Fund	Total
Investments in pooled cash	\$ 125,857	\$ -	\$ 125,857
Intergovernmental receivable	5,658	-	5,658
Prepaid expense	11,729	-	11,729
Total assets	\$ 143,244	\$ -	\$ 143,244
Liabilities			
Accounts payable	\$ 16,154	\$ -	\$ 16,154
Total liabilities	16,154	-	16,154
Fund Balances			
Non-spendable	11,729	-	11,729
Restricted for emergencies	6,097	-	6,097
Unassigned	109,264	-	109,264
Total Fund Balances	127,090	-	127,090
Total Liabilities and Fund Balances	\$ 143,244	\$ -	\$ 143,244

Total governmental fund balance per above \$ 127,090

Amounts reported for governmental activities in the statement of net assets 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. 1,100,646

Other long-term assets are not available to pay for current period expenditures, and therefore, are not reported in the funds.

Capital and service obligations due from Cornerstone Metro Dist. No. 2 8,289,733

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 - general operations (212,260)

Developer advance payable - capital (6,794,238)

Accrued interest payable (1,410,325)

Net assets of governmental activities \$ 1,100,646

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

Cornerstone Metropolitan District No. 1
Governmental Fund Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended December 31, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Revenues:			
Investment income	\$ 322	\$ -	\$ 322
Intergovernmental revenue - Cornerstone No. 2	<u>263,425</u>	<u>-</u>	<u>263,425</u>
Total General Revenues	<u>263,747</u>	<u>-</u>	<u>263,747</u>
Expenses:			
General government			
Accounting and audit	58,629	-	58,629
Dues and subscriptions	2,620	-	2,620
Insurance and bonds	8,386	-	8,386
Legal and professional fees	14,347	-	14,347
District management	19,200	-	19,200
Other expenses	2,328	-	2,328
Allocated overhead	(42,204)	-	(42,204)
Public safety	66,090	-	66,090
Public works			
Road repairs and maintenance	73,851	-	73,851
Capital outlay	<u>-</u>	<u>96,497</u>	<u>96,497</u>
Total Expenditures	<u>203,247</u>	<u>96,497</u>	<u>299,744</u>
Excess of revenues over expenditures	<u>60,500</u>	<u>(96,497)</u>	<u>(35,997)</u>
Other financing sources:			
Developer advance - capital	<u>-</u>	<u>96,497</u>	<u>96,497</u>
Net change in fund balance	60,500	-	60,500
Fund balances:			
Beginning of the year	<u>66,590</u>	<u>-</u>	<u>66,590</u>
End of the year	<u>\$ 127,090</u>	<u>\$ -</u>	<u>\$ 127,090</u>

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

Cornerstone Metropolitan District No. 1
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2011

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

Net change in fund balance—total governmental funds	\$	60,500
<p>Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure; however, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. In addition, in the Statement of Activities, conveyance of assets to the Water and Sewer Fund or other governmental entities is reported as an expense.</p>		
Transfer of capital assets to Water fund		(96,497)
Depreciation		(40,764)
Capitalized expenditures		96,497
<p>Long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
Change in accrued interest and fees on long-term debt		(549,104)
Developer advance		(96,497)
<p>Capital and service obligations reported in the Statement of Activities do not provide or consume current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds.</p>		
		585,101
Change in net assets of governmental activities	\$	(40,764)

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

Cornerstone Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—General Fund
For the Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Investment income	\$ 50	\$ 322	\$ 272
Intergovernmental revenue - Cornerstone No. 2	264,455	263,425	(1,030)
Total revenue	264,505	263,747	(758)
Expenditures:			
General government			
Accounting and audit	62,000	58,629	3,371
Dues and subscriptions	1,500	2,620	(1,120)
Insurance and bonds	10,000	8,386	1,614
Legal and professional fees	30,000	14,347	15,653
District management	38,400	19,200	19,200
Other expenses	6,200	2,328	3,872
Allocated overhead	(63,240)	(42,204)	(21,036)
Contingency	10,000	-	10,000
Public safety			
Fire and emergency medical	8,750	2,840	5,910
Public safety operations	70,000	63,250	6,750
Public works			
Road repairs and maintenance	130,200	73,851	56,349
Total Expenditures	303,810	203,247	100,563
Revenue Over (Under) Expenditures	(39,305)	60,500	99,805
Other Sources and Uses			
Developer advance - operations	39,000	-	39,000
Total Sources and Uses	39,000	-	39,000
Net Change	(305)	60,500	60,805
Fund Balance—Beginning of year	26,560	66,590	40,030
Fund Balance—End of Year	\$ 26,255	\$ 127,090	\$ 100,835

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

Cornerstone Metropolitan District No. 1
Statement of Revenue, Expenses and Changes in Net Assets
Proprietary Fund Type—Water and Sewer Enterprise Fund
For the Year Ended December 31, 2011

Operating Revenues	
Water use fees	\$ 327,230
Sewer use fees	9,900
Commercial overhead fees	92,466
Late fees	335
Total operating revenues	<u>429,931</u>
Operating Expenses	
Water operating expenses	435,350
Sewer operating expenses	38,743
Allocated overhead from General Fund	42,204
Depreciation expense	512,550
Total operating expenses	<u>1,028,847</u>
Net Operating (Loss)	<u>(598,916)</u>
Non-Operating Revenues (Expenses)	
Interest expense	(15,107)
Transfer of capital assets from General Fund	96,497
Change in net capital and service obligation due from Cornerstone Metro Dist. No. 2	<u>101,473</u>
Total Non-Operating Revenues (Expenses)	<u>182,863</u>
Change in Net Assets	(416,053)
Net Assets—Beginning of Year	<u>13,969,759</u>
Net Assets—End of Year	<u>\$ 13,553,706</u>

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

Cornerstone Metropolitan District No. 1
Statement of Cash Flows
Proprietary Fund Type—Water and Sewer Enterprise Fund
For the Year Ended December 31, 2011

Cash Flows from Operating Activities	
Cash received from customers	\$ 429,316
Cash paid to suppliers for goods and services	(474,093)
Cash paid to General Fund for allocated overhead	<u>(42,204)</u>
Net cash (used in) operating activities	<u>(86,981)</u>
Cash Flows from Non-Capital Financing Activities	
Developer advances	<u>100,000</u>
Net cash provided by capital and related financing activities	<u>100,000</u>
Net Decrease in Cash and Cash Equivalents	13,019
Cash and Cash Equivalents—Beginning of Year	<u>18,529</u>
Cash and Cash Equivalents—End of Year	<u><u>\$ 31,548</u></u>
Reconciliation of Net Operating Loss to	
 Net Cash From Operating Activities:	
Net Operating Loss	\$ (598,916)
Adjustments to Reconcile Net Operating Loss to Net	
Cash Used by Operating Activities:	
Depreciation	512,550
Changes in Assets and Liabilities:	
(Increase) decrease in accounts receivable	<u>(615)</u>
Total Adjustments	<u>511,935</u>
Net Cash (Used in) Operating Activities	<u><u>\$ (86,981)</u></u>
Non-cash investing, capital and financing transactions:	
Change in service and capital obligations	101,473
Accrued interest on long-term debt	15,107

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

Cornerstone Metropolitan District No. 1

Notes to Financial Statements

December 31, 2011

1. 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.

2. Summary of Significant Accounting Policies

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

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets 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.

Cornerstone Metropolitan District No. 1

Notes to Financial Statements (continued)

December 31, 2011

2. Summary of Significant Accounting Policies (continued)

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.

The statement of net assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets. Since District No. 1 is ultimately responsible for owning and operating the infrastructure of the community, and District No. 2 is ultimately responsible to provide funding for such, the net assets of the District are equal to the capital assets, net of depreciation.

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 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.

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.

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

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

2. Summary of Significant Accounting Policies (continued)

susceptible to accrual are property taxes. 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.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital infrastructure.

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 nonoperating 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 nonoperating revenues and expenses or capital contributions.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

2. Summary of Significant Accounting Policies (continued)

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.

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. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund presented on the modified accrual basis of accounting.

Capital Assets

Capital assets, which include 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 costs 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:

Roads	30 years
Water infrastructure	30 years
Sewer infrastructure	30 years

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:

Cornerstone Metropolitan District No. 1

Notes to Financial Statements (continued)

December 31, 2011

2. Summary of Significant Accounting Policies (continued)

- *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 being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *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.

Fund Balance Classifications

The total fund balance of the governmental funds was \$127,090 as of December 31, 2011. Of this balance, \$11,729 was non-spendable since it had already been used to pre-pay expenses of 2012, \$6,097 was restricted for emergencies, as required by TABOR, and the remaining balance of \$109,264 is unassigned.

3. 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

Cornerstone Metropolitan District No. 1

Notes to Financial Statements (continued)

December 31, 2011

3. Cash and Investments (continued)

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.

As of December 31, 2011, the District's cash deposits had a bank balance of \$182,972 and a carrying balance of \$156,915, all of which was FDIC insured.

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

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

3. Cash and Investments (continued)

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

As of December 31, 2011, the District had the following investments:

Investment	Maturity Weighted average	Fair Value
Colorado Surplus Asset Trust Fund (CSAFE)	under 60 days	\$ <u>490</u>

CSAFE

During 2011, the District 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 services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. As of December 31, 2011, the District had \$490 invested in CSAFE.

4. Capital Assets

An analysis of the changes in net capital asset during 2011 follows:

	Balance December 31, 2010	Additions	Retirements	Balance December 31, 2011
Governmental Activities:				
Capital assets, depreciable:				
Roads	\$ 1,222,939	\$ -	\$ -	\$ 1,222,939
Accumulated depreciation	(81,529)	(40,764)	-	(122,293)
Business-Type Activities:				
Capital assets, depreciable:				
Water and Sewer	15,328,261	96,497	-	15,424,758
Accumulated depreciation	<u>(1,358,502)</u>	<u>(512,550)</u>	-	<u>(1,871,052)</u>
Total depreciable capital assets, net	<u>\$15,111,169</u>	<u>\$ (456,817)</u>	<u>\$ -</u>	<u>\$14,654,352</u>

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

4. Capital Assets (continued)

Depreciation expense charged in 2011 to the governmental and enterprise functions of the District were \$40,764 and \$512,550, respectively.

5. 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) to provide the revenue needed to support the ongoing operation and maintenance of the improvements and public facilities (service obligation). These items represent the portion of the obligations not yet reimbursed by Cornerstone Metropolitan District No. 2 as of December 31, 2011.

6. Long-Term Liabilities

The following is an analysis of changes in the District's long-term debt for the year ended December 31, 2011:

	Balance December 31, 2010	Additions	Payments	Balance December 31, 2011	Due Within One Year
Developer advance					
- General fund operations	\$ 212,260	\$ -	\$ -	\$ 212,260	-
- Water and sewer fund operations	240,000	100,000	-	340,000	-
- Capital	<u>6,697,741</u>	<u>96,497</u>	<u>-</u>	<u>6,794,238</u>	<u>-</u>
	<u>\$ 7,150,001</u>	<u>\$ 196,497</u>	<u>\$ -</u>	<u>\$ 7,346,498</u>	<u>\$ -</u>

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

6. Long-Term Liabilities (continued)

Developer Advances

The District has entered into an Advance and Reimbursement Agreement (the Reimbursement Agreement) with the 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. As of December 31, 2011, outstanding advances totaled \$552,260.

Pursuant to an Amended and Restated Infrastructure Acquisition Agreement (the Acquisition Agreement), entered into on November 18, 2008 with the Developer, the District has agreed to purchase, using the proceeds of available funds, certain public improvements the Developer has provided, or is in the process of providing, on the Districts' 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 can not 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. At December 31, 2011, outstanding advances total \$6,794,238.

Debt Authorization

On November 2, 2004, the District's electors authorized the issuance of indebtedness totaling \$787,500,000 at an interest rate not to exceed 12%. The following schedule shows the amounts authorized and unissued as of December 31, 2011:

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

6. Long-Term Liabilities (continued)

	Authorized November 2, 2004	Authorization Used, Series 2006	Remaining at December 31, 2010
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>

However, pursuant to the Service Plan, the District will not issue more than \$30,000,000 in indebtedness.

7. Net Assets

The District has net assets consisting of three components - invested in capital assets, net of related debt, restricted and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, plus capital and service obligations due from District No. 2, but is reduced by the outstanding balance of bonds or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

7. Net Assets

Restricted assets include net assets 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 assets of \$6,097 as of December 31, 2011 which are restricted for emergencies as required by Colorado legislation.

The District's unrestricted net assets as of December 31, 2011 totaled \$(6,097).

8. Related Parties

The Original Developer of the property which constitutes the District is Cornerstone Montrose LLC, a Delaware limited liability company, and a wholly-owned subsidiary of Hunt Realty Investments (f.k.a. Hunt Realty Corporation). The members of the Board of Directors were officers, employees or associated with the Developer and may have conflicts of interest in dealing with the District. In December of 2011 the Original Developer sold the properties and future development rights to a new entity.

9. Economic Dependency

The District receives the majority of its funding from the fees charged to the Developer and Club, as well as the property taxes paid by the same entities to District No. 2 and transferred to the District. Even with these funds, the District has not yet established a revenue base sufficient to pay the full amount of the District's operational expenditures. Continuation of operations in the District will be dependent upon funding of shortfalls by the Developer.

10. 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 (continued)

December 31, 2011

10. 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.

11. Intergovernmental Agreements

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 wherein the combined maximum mill levy shall not exceed 55.000 mills, with the maximum operations mill levy not to exceed 20.000 mills, and the maximum debt mill levy not to exceed 40.000 mills.

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 Agreement 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 interest in and to the Potable Water Service Agreement to the District pursuant to the Assignment Agreement.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

11. Intergovernmental Agreements (continued)

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 2011, \$0 was paid by the District pursuant to the agreement.

Government Springs Road Maintenance Agreement

On May 1, 2006 the District entered into an agreement with Ouray County and Cornerstone Montrose LLC (the developer) which provides a mechanism for joint funding of maintenance costs related to Government Springs Road. Government Springs Road is the primary access 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 2011, \$-0- was paid by the District pursuant to the agreement.

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 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 2011, \$-0- was paid by the District pursuant to the agreement.

12. 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.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2011

12. Tax, Spending and Debt Limitations (continued)

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, 2011, the District had an emergency reserve of \$10,215. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

On November 2, 2004, the District's voters authorized the District to increase property taxes \$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
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—Capital Projects Fund
For the Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Revenues	\$ -	\$ -	\$ -
Total revenue	-	-	-
Expenditures:			
Capital outlay	500,000	96,497	403,503
Total Expenditures	500,000	96,497	403,503
Revenue Over (Under) Expenditures	(500,000)	(96,497)	403,503
Other Sources and Uses			
Developer advance	500,000	96,497	(403,503)
Total Sources and Uses	500,000	96,497	(403,503)
Net Change	-	-	-
Fund Balance—Beginning of year	-	-	-
Fund Balance—End of Year	\$ -	\$ -	\$ -

Cornerstone Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Water and Sewer Enterprise Fund
For the Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Water use fees	\$ 218,569	\$ 327,230	\$ 108,661
Sewer use fees	10,005	9,900	(105)
Commercial overhead fees	115,465	92,466	(22,999)
Late fees	100	335	235
Developer advance	190,000	100,000	(90,000)
Total Revenue	534,139	529,931	(4,208)
Expenditures:			
Water operations			
Purchased treated water	128,137	174,343	(46,206)
Utilities	101,510	107,729	(6,219)
Engineering and contracted services	137,000	121,720	15,280
Operations and maintenance	36,500	31,558	4,942
Allocated overhead from General Fund	47,430	31,653	15,777
Sewer operations			
Utilities	3,000	3,154	(154)
Engineering and contracted services	35,000	33,976	1,024
Operations and maintenance	9,000	1,613	7,387
Allocated overhead from General Fund	15,810	10,551	5,259
Contingency	20,000	-	20,000
Total Expenditures	533,387	516,297	17,090
Net income non-GAAP basis	\$ 752	13,634	\$ 12,882
Reconciling differences between budgetary basis and generally accepted accounting principles (GAAP):			
Change in net capital and service obligation due from Cornerstone Metro Dist. No. 2		101,473	
Developer advances		(100,000)	
Transfer of capital assets from General Fund		96,497	
Accrued interest expense		(15,107)	
Depreciation expense		(512,550)	
Net loss (GAAP Basis)		\$ (416,053)	