

Cornerstone Metropolitan District No. 1

Annual Financial Report

December 31, 2012

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**Haynie &
Company**

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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, business-type activities, and the major funds of Cornerstone Metropolitan District No. 1 (the "District") as of and for the year ended December 31, 2012 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 of 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, business-type activities and the major funds of Cornerstone Metropolitan District No. 1, as of December 31, 2012 and the respective changes in financial position, cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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 financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and are not a required part of the financial statements.

The osupplementary information as listed in the table of contents 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Littleton, Colorado
July 15, 2013

Cornerstone Metropolitan District No. 1 Management's Discussion and Analysis December 31, 2012

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, 2012.

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. Over time, increases or decreases in net position 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 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 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 a General Fund, which is a governmental fund and the Water and Sewer Fund which is a proprietary fund.

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2012**

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 – 23 of this report.

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**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2012**

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 Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current assets	176,642	143,244	133,188	71,317	309,830	214,561
Capital and other non-current assets	9,919,373	9,390,379	13,293,321	13,843,674	23,212,694	23,234,053
Total Assets	10,096,015	9,533,623	13,426,509	13,914,991	23,522,524	23,448,614
Liabilities:						
Current liabilities	61,512	16,154	-	-	61,512	16,154
Long-term and other non-current liabilities	8,974,622	8,416,823	381,741	361,285	9,356,363	8,778,108
Total Liabilities	9,036,134	8,432,977	381,741	361,285	9,417,875	8,794,262
Net Position:						
Net Investment in capital assets	1,059,881	1,100,646	13,044,768	13,553,706	14,104,649	14,654,352
Restricted for emergencies	5,214	6,097	-	-	5,214	6,097
Unrestricted	(5,214)	(6,097)	-	-	(5,214)	(6,097)
Total Net Position	1,059,881	1,100,646	13,044,768	13,553,706	14,104,649	14,654,352

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	-	-	416,912	429,931	416,912	429,931
Operating grants and contributions	291,574	263,425	-	101,473	291,574	364,898
Capital grants and contributions	545,028	632,866	-	-	545,028	632,866
General revenues:						
Interest and other revenue	-	322	-	-	-	322
Total Revenues	836,602	896,613	416,912	531,404	1,253,514	1,428,017
Expenses:						
General government	104,575	63,306	-	-	104,575	63,306
Public works	100,937	114,615	-	-	100,937	114,615
Public Safety	9,056	66,090	-	-	9,056	66,090
Intergovernmental agreement	-	47,765	41,415	-	41,415	47,765
Interest on long-term debt	557,799	549,104	-	-	557,799	549,104
Water and Sewer	-	-	989,435	1,043,954	989,435	1,043,954
Total Expenses	772,367	840,880	1,030,850	1,043,954	1,803,217	1,884,834
Change in Net Position						
before Transfers	64,235	55,733	(613,938)	(512,550)	(549,703)	(456,817)
Transfers	(105,000)	(96,497)	105,000	96,497	-	-
Change in Net Position	(40,765)	(40,764)	(508,938)	(416,053)	(549,703)	(456,817)
Net Position - Beginning	1,100,646	1,141,410	13,553,706	13,969,759	14,654,352	15,111,169
Net Position - Ending	1,059,881	1,100,646	13,044,768	13,553,706	14,104,649	14,654,352

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2012**

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 and when received, 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 position decreased by a total of \$549,703, 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 \$91,099, which is a decrease of (\$35,991). Of this fund balance, \$2,588 of this is nonspendable and \$5,214 is restricted for emergencies. The remainder of the combined fund balance of \$83,297 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 \$13,044,768, all of which is shown as Net Investment in Capital Assets. 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, 2012**

Budget variances

The District has significant amounts that have been billed but unpaid by the primary users of the water and sewer system as well as significant tax payers. The District cut expenses where possible to offset the effects to the extent possible. Details of the budgets can be seen on pages 6 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 \$549,703 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 16 of this report.

Long-term debts

The District's long-term debts reflect no change in 2012. Additional information can be found in the Notes to the Financial Statements on page 17 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, further declines are expected beginning in the 2014, which will force District No.2 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 owners of the unsold residential lots, Club facilities, and open spaces, the District encountered significant cash flow issues in 2012 that have and may continue to limit the ability of the District to provide services to the community. See footnote 9 on page 19 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 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 Position
December 31, 2012

Assets	Governmental Activities	Business- Type Activities	Total
Investments in pooled cash	\$ 147,202	\$ 3,661	\$ 150,863
Intergovernmental receivable	1,590	-	1,590
Accounts receivable, net	25,262	129,527	154,789
Prepaid expenses	2,588	-	2,588
Non-Current capital and service obligation receivable due from Cornerstone Metro Dist. No. 2	8,859,492	248,553	9,108,045
Capital assets, net of depreciation:			-
Water and sewer infrastructure	-	13,039,548	13,039,548
Roads	1,059,881	-	1,059,881
Equipment	-	5,220	5,220
Total assets	<u>10,096,015</u>	<u>13,426,509</u>	<u>23,522,524</u>
 Liabilities			
Accounts payable	61,512	-	61,512
Accrued interest payable	1,968,124	41,741	2,009,865
Developer advance payable - general operations	212,260	-	212,260
Developer advance payable - water operations	-	340,000	340,000
Developer advance payable - capital	<u>6,794,238</u>	<u>-</u>	<u>6,794,238</u>
Total liabilities	<u>9,036,134</u>	<u>381,741</u>	<u>9,417,875</u>
 Net Position			
Net investment in capital assets	1,059,881	13,044,768	14,104,649
Restricted for emergencies	5,214	-	5,214
Unrestricted	<u>(5,214)</u>	<u>-</u>	<u>(5,214)</u>
Total Net Position	<u>1,059,881</u>	<u>13,044,768</u>	<u>14,104,649</u>
Total Liabilities and Net Position	<u>\$ 10,096,015</u>	<u>\$13,426,509</u>	<u>\$ 23,522,524</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	\$ 104,575	\$ -	\$ -	\$ -	\$ (104,575)	\$ -	\$ (104,575)
Public works	100,937	-	-	-	(100,937)	-	(100,937)
Public safety	9,056	-	-	-	(9,056)	-	(9,056)
Intergovernmental agreement	-	-	291,574	545,028	836,602	-	836,602
Interest and related costs on long term debt	557,799	-	-	-	(557,799)	-	(557,799)
	<u>772,367</u>	<u>-</u>	<u>291,574</u>	<u>545,028</u>	<u>64,235</u>	<u>-</u>	<u>64,235</u>
Business-type activities							
Water and sewer	989,435	416,912	-	-	-	(572,523)	(572,523)
Intergovernmental agreement	41,415	-	-	-	-	(41,415)	(41,415)
	<u>1,030,850</u>	<u>416,912</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(613,938)</u>	<u>(613,938)</u>
General revenues:							
Interfund transfers					(105,000)	105,000	-
Total general revenues and transfers					<u>(105,000)</u>	<u>105,000</u>	<u>-</u>
Change in net position					(40,765)	(508,938)	(549,703)
Net position - beginning of year					1,100,646	13,553,706	14,654,352
Net position - end of year					<u>\$ 1,059,881</u>	<u>\$ 13,044,768</u>	<u>\$ 14,104,649</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 Position
December 31, 2012

Assets	<u>General Fund</u>	<u>Total</u>
Investments in pooled cash	\$ 147,202	\$ 147,202
Intergovernmental receivable	1,590	1,590
Accounts receivable	1,231	1,231
Prepaid expense	2,588	2,588
Total assets	<u>\$ 152,611</u>	<u>\$ 152,611</u>
Liabilities		
Accounts payable	<u>\$ 61,512</u>	<u>\$ 61,512</u>
Total liabilities	<u>61,512</u>	<u>61,512</u>
Fund Balances		
Non-spendable	2,588	2,588
Restricted for emergencies	5,214	5,214
Unassigned	<u>83,297</u>	<u>83,297</u>
Total Fund Balances	<u>91,099</u>	<u>91,099</u>
Total Liabilities and Fund Balances	<u>\$ 152,611</u>	<u>\$ 152,611</u>
Total governmental fund balance per above		\$ 91,099
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.		1,059,881
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		8,859,492
Delayed property taxes receivable from Dist. No. 2		24,031
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		<u>(1,968,124)</u>
Net position of governmental activities		<u>\$ 1,059,881</u>

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, 2012

	General Fund	Total
Revenues:		
Intergovernmental revenue - Cornerstone No. 2	\$ 242,812	\$ 242,812
Total General Revenues	242,812	242,812
Expenses:		
General government		
Accounting and audit	70,554	70,554
Dues and subscriptions	150	150
Insurance and bonds	11,203	11,203
Legal and professional fees	60,356	60,356
District management	28,438	28,438
Other expenses	3,591	3,591
Allocated overhead	(69,717)	(69,717)
Public safety	9,056	9,056
Public works		
Road repairs and maintenance	60,172	60,172
Total Expenditures	173,803	173,803
Excess of revenues over expenditures	69,009	69,009
Other financing sources (uses):		
Interfund transfers	(105,000)	(105,000)
Net change in fund balance	(35,991)	(35,991)
Fund balances:		
Beginning of the year	127,090	127,090
End of the year	\$ 91,099	\$ 91,099

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, 2012

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

Net change in fund balance—total governmental funds	\$	(35,991)
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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.

Depreciation		(40,765)
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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.

Change in accrued interest on long-term debt		(557,799)
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Capital and service obligations and long-term receivables reported in the Statement of Net Position do not provide or consume current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds.

Delayed property tax receipt from Dist. No. 2		24,031
Change in capital and service obligations due from Dist. No. 2		569,759
		569,759

Change in net position of governmental activities	\$	(40,765)
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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, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Investment income	\$ 200	\$ -	\$ (200)
Intergovernmental revenue - Cornerstone No. 2	262,817	242,812	(20,005)
Total revenue	263,017	242,812	(20,205)
Expenditures:			
General government			
Accounting and audit	62,000	70,554	(8,554)
Dues and subscriptions	1,750	150	1,600
Insurance and bonds	10,060	11,203	(1,143)
Legal and professional fees	25,000	60,356	(35,356)
District management	5,000	28,438	(23,438)
Other expenses	9,400	3,591	5,809
Allocated overhead	(49,284)	(69,717)	20,433
Contingency	10,000	-	10,000
Public safety			
Fire and emergency medical	5,750	1,210	4,540
Public safety operations	70,000	7,846	62,154
Public works			
Road repairs and maintenance	129,700	60,172	69,528
Total Expenditures	279,376	173,803	105,573
Revenue Over (Under) Expenditures	(16,359)	69,009	85,368
Other Sources and Uses			
Developer advances	16,000	-	(16,000)
Interfund transfers	-	(105,000)	(105,000)
Total Sources and Uses	16,000	(105,000)	(121,000)
Net Change	(359)	(35,991)	(35,632)
Fund Balance—Beginning of year	70,067	127,090	57,023
Fund Balance—End of Year	\$ 69,708	\$ 91,099	\$ 21,391

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

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, 2012

Operating Revenues	
Water use fees	\$ 384,942
Sewer use fees	10,350
Late fees	21,620
Total operating revenues	<u>416,912</u>
Operating Expenses	
Water operating expenses	342,058
Sewer operating expenses	42,466
Allocated overhead from General Fund	69,717
Depreciation expense	514,738
Total operating expenses	<u>968,979</u>
Net Operating (Loss)	<u>(552,067)</u>
Non-Operating Revenues (Expenses)	
Interest expense	(20,456)
Transfer from General Fund	105,000
Change in net capital and service obligation due from Cornerstone Metro Dist. No. 2	<u>(41,415)</u>
Total Non-Operating Revenues (Expenses)	<u>43,129</u>
Change in Net Position	(508,938)
Net Position—Beginning of Year	<u>13,553,706</u>
Net Position—End of Year	<u>\$ 13,044,768</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, 2012

Cash Flows from Operating Activities	
Cash received from customers	\$ 327,154
Cash paid to suppliers for goods and services	(384,524)
Cash paid to General Fund for allocated overhead	<u>(69,717)</u>
Net cash (used in) operating activities	<u>(127,087)</u>
 Cash Flows from Investing Activities	
Purchase of capital assets	<u>(5,800)</u>
Net cash used by capital and related financing activities	<u>(5,800)</u>
 Cash Flows from Non-Capital Financing Activities	
Transfers from governmental funds	<u>105,000</u>
Net cash provided by capital and related financing activities	<u>105,000</u>
Net Decrease in Cash and Cash Equivalents	(27,887)
Cash and Cash Equivalents—Beginning of Year	<u>31,548</u>
Cash and Cash Equivalents—End of Year	<u><u>\$ 3,661</u></u>
Reconciliation of Net Operating Loss to	
Net Cash From Operating Activities:	
Net Operating Loss	\$ (552,067)
Adjustments to Reconcile Net Operating Loss to Net	
Cash Used by Operating Activities:	
Depreciation	514,738
Changes in Assets and Liabilities:	
(Increase) decrease in accounts receivable	<u>(89,758)</u>
Total Adjustments	<u>424,980</u>
Net Cash (Used in) Operating Activities	<u><u>\$ (127,087)</u></u>
 Non-cash investing, capital and financing transactions:	
Change in service and capital obligations	41,415
Accrued interest on long-term debt	20,456

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

Cornerstone Metropolitan District No. 1

Notes to Financial Statements

December 31, 2012

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 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.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2012

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 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. 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 position 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, 2012

2. Summary of Significant Accounting Policies (continued)

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.

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, 2012

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
Equipment	5 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, 2012

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 \$91,099 as of December 31, 2012. Of this balance, \$2,588 was non-spendable since it had already been used to pre-pay expenses of 2013, \$5,214 was restricted for emergencies, as required by TABOR, and the remaining balance of \$83,297 is unassigned.

New Accounting Pronouncements

Effective January 1, 2012, the District implemented the provisions of GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" (GASB No. 63).

Cornerstone Metropolitan District No. 1

Notes to Financial Statements (continued)

December 31, 2012

2. Summary of Significant Accounting Policies (continued)

GASB No. 63 provides guidance for reporting deferred outflows and deferred inflows of resources as introduced and defined in GASB Concepts Statement No. 4 “Elements of Financial Statements” (Concepts Statement No. 4). Concepts Statement No. 4 defines a deferred outflow of resources as a consumption of net assets that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net assets applicable to a future reporting period. The impact on the District’s financial statements has been to replace the term “net assets” with “net position”.

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

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, 2012, the District’s cash deposits had a bank and carrying balance of \$150,373, 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.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2012

3. Cash and Investments (continued)

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, 2012, the District had the following investments:

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

CSAFE

During 2012, 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, 2012, the District had \$490 invested in CSAFE.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2012

4. Capital Assets

An analysis of the changes in net capital asset during 2012 follows:

	Balance December 31, 2011	Additions	Retirements	Balance December 31, 2012
Governmental Activities:				
Capital assets, depreciable:				
Roads	\$ 1,222,939	\$ -	\$ -	\$ 1,222,939
Accumulated depreciation	(122,293)	(40,765)	-	(163,058)
Business-Type Activities:				
Capital assets, depreciable:				
Water and Sewer	15,424,758	-	-	15,424,758
Equipment	-	5,800	-	5,800
Accumulated depreciation	<u>(1,871,052)</u>	<u>(514,738)</u>	<u>-</u>	<u>(2,385,790)</u>
Total depreciable capital assets, net	<u>\$14,654,352</u>	<u>\$ (549,703)</u>	<u>\$ -</u>	<u>\$14,104,649</u>

Depreciation expense charged in 2012 to the governmental and enterprise functions of the District were \$40,765 and \$514,738, 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) and 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, 2012.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2012

6. Long-Term Liabilities

The following is an analysis of changes in the District's long-term debt for the year ended December 31, 2012:

	Balance December 31, 2011	Additions	Payments	Balance December 31, 2012	Due Within One Year
Developer advance					
- General fund operations	\$ 212,260	\$ -	\$ -	\$ 212,260	-
- Water and sewer fund operations	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>

Developer Advances

The District has entered into an Advance and Reimbursement Agreement (the Reimbursement 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; however, the District continues to report the amounts owed, which as of December 31, 2012, 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 original 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. This agreement was also not renewed for 2012 and as of December 31, 2012, outstanding advances total \$6,794,238.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2012

6. Long-Term Liabilities (continued)

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, 2012:

	<u>Authorized November 2, 2004</u>	<u>Authorization Used, Series 2006</u>	<u>Remaining at December 31, 2010</u>
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 Position

The District has net position consisting of three components – net investment in capital assets, restricted and unrestricted.

Net investment in capital assets 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 developer advances 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, 2012

7. Net Position (continued)

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 \$5,214 as of December 31, 2012 which are restricted for emergencies as required by Colorado legislation.

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 or fee increases to the constituents of the District.

The District has recorded a short-term allowance for delayed receipts of \$121,951 in the enterprise fund (see page 24), which represents amounts billed but unpaid to the owners of the golf course and other large consumers. The District recorded a separate allowance of \$24,031 for taxes levied by District No. 2, which were not collected from the same entities.

For 2013, the District imposed a general operations fee to partially offset the effect of the loss of advances from the original Developer as well as the delinquencies of the new parties.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2012

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.

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.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2012

11. Intergovernmental Agreements (continued)

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.

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 2012, \$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 original 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 2012, \$-0- was paid by the District pursuant to the agreement.

Cornerstone Metropolitan District No. 1

Notes to Financial Statements (continued)

December 31, 2012

11. Intergovernmental Agreements (continued)

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 be 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 2012, \$-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.

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, 2012, the District had an emergency reserve of \$5,214. 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.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2012

12. Tax, Spending and Debt Limitations (continued)

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
Water and Sewer Enterprise Fund
For the Year Ended December 31, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Water use fees	\$ 458,755	\$ 384,942	\$ (73,813)
Sewer use fees	11,315	10,350	(965)
Late fees	200	21,620	21,420
Allowance for delayed receipts	-	(121,951)	(121,951)
Developer advance	165,000	-	(165,000)
Transfers from General Fund	-	105,000	105,000
Total Revenue	635,270	399,961	(235,309)
Expenditures:			
Water operations			
Purchased treated water	191,802	165,333	26,469
Utilities	149,967	107,615	42,352
Engineering and contracted services	136,500	55,366	81,134
Operations and maintenance	47,000	13,744	33,256
Allocated overhead from General Fund	36,965	52,288	(15,323)
Capital outlay	5,800	5,800	-
Sewer operations			
Utilities	3,000	2,148	852
Engineering and contracted services	38,850	40,224	(1,374)
Operations and maintenance	9,000	94	8,906
Allocated overhead from General Fund	12,321	17,429	(5,108)
Contingency	10,000	-	10,000
Total Expenditures	641,205	460,041	181,164
Net income non-GAAP basis	\$ (5,935)	(60,080)	\$ (54,145)
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		(41,415)	
Accrued interest expense		(20,456)	
Capitalization of capital purchases		5,800	
Delinquent accounts receivable		121,951	
Depreciation expense		(514,738)	
Net loss (GAAP Basis)		\$ (508,938)	