

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

December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cornerstone Metropolitan District No. 1

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, of the Cornerstone Metropolitan District No. 1 (the District) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2022, and the respective changes in financial position, and the general fund budget to actual information and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of



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not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The proprietary fund budgetary



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schedule is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the proprietary fund budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Chadwick, Steinkirchner, Davis & Co., P.C.
May 22, 2023

Cornerstone Metropolitan District No. 1 Management's Discussion and Analysis December 31, 2022

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, 2022.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements

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

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Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental funds financial statements are located on pages 11 through 13 of this report. The District also presents a budgetary comparison for its General fund on page 30.

Proprietary funds

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

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

The basic proprietary fund financial statements can be found on pages 9-10, and 14-15 of this report. The District also presents a budgetary comparison for its proprietary fund on page 31.

Notes to the Financial Statements

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

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Government-wide Financial Analysis

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

Cornerstone Metropolitan District No. 1 Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets:						
Current assets	835,016	693,708	540,432	462,076	1,375,448	1,155,784
Capital and other non-current assets	741,616	821,076	8,046,987	8,541,306	8,788,603	9,362,382
Total Assets	1,576,632	1,514,784	8,587,419	9,003,382	10,164,051	10,518,166
Liabilities:						
Current liabilities	88,233	87,099	-	-	88,233	87,099
Long-term and other non-current liabilities	14,580,190	14,062,833	585,797	565,397	15,165,987	14,628,230
Total Liabilities	14,668,423	14,149,932	585,797	565,397	15,254,220	14,715,329
Net Position:						
Net Investment in capital assets	700,633	741,332	8,046,987	8,541,306	8,747,620	9,282,638
Restricted for emergencies	13,636	11,879			13,636	11,879
Unrestricted	(13,806,060)	(13,388,359)	(45,365)	(103,321)	(13,851,425)	(13,491,680)
Total Net Position	(13,091,791)	(12,635,148)	8,001,622	8,437,985	(5,090,169)	(4,197,163)

Cornerstone Metropolitan District No. 1 Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	21,687	19,109	636,644	680,331	658,331	699,440
Operating grants and contributions	411,225	357,605	-	-	411,225	357,605
Capital grants and contributions	-	-	-	-	-	-
General revenues:	-	-	-	-	-	-
Interest and other revenue	16,619	272	-	-	16,619	272
Total Revenues	449,531	376,986	636,644	680,331	1,086,175	1,057,317
Expenses:						
General government	85,042	99,574	-	-	85,042	99,574
Public works	252,549	159,770	-	-	252,549	159,770
Public Safety	4,666	13,670	-	-	4,666	13,670
Intergovernmental agreement	-	-	-	-	-	-
Interest on long-term debt	560,917	562,755	-	-	560,917	562,755
Water and Sewer	-	-	1,076,007	1,151,272	1,076,007	1,151,272
Total Expenses	903,174	835,769	1,076,007	1,151,272	1,979,181	1,987,041
Change in Net Position Before Transfers & Sale of Assets	-	-	-	-	(893,006)	(929,724)
Net (loss)/gain on sale of assets	-	-	-	-	-	-
Transfers	(3,000)	(146,000)	3,000	146,000	-	-
Change in Net Position	(456,643)	(604,783)	(436,363)	(324,941)	(893,006)	(929,724)
Net Position - Beginning	(12,635,148)	(12,030,365)	8,437,985	8,762,926	(4,197,163)	(3,267,439)
Net Position - Ending	(13,091,791)	(12,635,148)	8,001,622	8,437,985	(5,090,169)	(4,197,163)

The District is 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 (“District No. 2”). Under the agreement, District No. 1 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 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. District No. 2 is required, to the extent financially possible, to ultimately pay off the “capital obligation” for construction costs as well as the “service obligation” for the costs of operating and maintaining the facilities. If received, the District will use the funds received from District No. 2 to pay off the District’s debt. However, based on both the current and anticipated financial condition of District No. 2, it is currently not anticipated that District No. 2 will be able to provide the funding needed for the District to be able to pay off the debts it owes to the Developer, and as such the District has recorded an allowance for doubtful accounts from District No. 2 in the full amount of the receivable of \$13,878,772.

The District’s overall financial position, as measured by net position decreased by a total of \$893,006 because of the District’s inability to meet its’ debt service obligations for Developer Advances as well as depreciation on capital assets. The District’s revenues consisted primarily of intergovernmental agreement revenues received from District No. 2, and water and sewer fees received and accrued from District constituents. The primary expenses of the District are interest accruals on the District’s debt and operating and depreciation costs related to the District’s infrastructure.

Financial Analysis of the District’s Funds

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

Governmental funds

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

As of the end of the current fiscal year, the District’s governmental funds reported a combined ending fund balance of \$770,544 which is an increase of \$145,174. Of this fund balance, \$30,522 is non-spendable as it was used to prepay subsequent year expenditures, \$13,636 is restricted for emergencies, \$550,000 is assigned for future road and public works costs, \$73,262 is assigned for the subsequent year’s budget, and \$103,124 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 \$8,001,622 of which \$8,046,987 is shown as Net Investment in Capital Assets and \$(45,365) as unrestricted.

Budget variances

The District finished the year with a positive variance in the change of fund balance for the governmental fund primarily because of less than budgeted expenditures, transfer to the Water and Sewer Fund, and not needing to use contingency funds. The change from a budgeted transfer to the Water and Sewer Fund compared to an actual transfer from the Water and Sewer Fund is the result of collection of prior year accounts receivable balances, increased revenue from water sales for golf course irrigation and savings in repairs and maintenance costs. Details of the budgets can be seen on pages 30 of this report for governmental funds and page 31 for the Water and Sewer Fund.

Capital assets

The District's investment in capital assets government-wide, net of accumulated depreciation decreased by \$556,696 as a result of depreciation expense exceeding 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 22-23 of this report.

Long-term debts

The District's long-term debts decreased by \$38,761 due to payments on the lease purchase agreement entered into in 2019. Other than payments on the lease purchase agreement there were no decreases in debt in 2022 as there was no funding available to make any payments. Additional information can be found in the Notes to the Financial Statements beginning on page 24 of this report.

Request for information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Marchetti & Weaver, LLC, 28 2nd Street, Unit 213, Edwards, CO 81632 or you may call (970) 926-6060.

Cornerstone Metropolitan District No. 1

STATEMENT OF NET POSITION

December 31, 2022

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Investment in pooled cash and cash equivalents	\$ 786,387	\$ 480,966	\$ 1,267,353
Intergovernmental receivable	3,107	-	3,107
Capital and service obligation, net	-	-	-
Accounts receivable, net	15,000	59,466	74,466
Prepaid	30,522	-	30,522
Capital assets, net of accumulated depreciation			
Land	11,990	-	11,990
Water and sewer infrastructure	-	8,044,287	8,044,287
Roads	652,235	-	652,235
Equipment	77,391	2,700	80,091
Total assets	<u>1,576,632</u>	<u>8,587,419</u>	<u>10,164,051</u>
LIABILITIES			
Current liabilities			
Accounts payable	49,472	-	49,472
Accrued interest payable	7,532,709	245,797	7,778,506
Current portion of long-term liabilities	38,761	-	38,761
Total current liabilities	<u>7,620,942</u>	<u>245,797</u>	<u>7,866,739</u>
Noncurrent liabilities			
Lease payable	40,983	-	40,983
Developer advance payable			
Operations and capital	7,006,498	-	7,006,498
Water operations	-	340,000	340,000
Total noncurrent liabilities	<u>7,047,481</u>	<u>340,000</u>	<u>7,387,481</u>
Total liabilities	<u>14,668,423</u>	<u>585,797</u>	<u>15,254,220</u>
NET POSITION			
Net investment in capital assets	700,633	8,046,987	8,747,620
Restricted for emergencies	13,636	-	13,636
Unrestricted	(13,806,060)	(45,365)	(13,851,425)
Total net position	<u>\$ (13,091,791)</u>	<u>\$ 8,001,622</u>	<u>\$ (5,090,169)</u>

The accompanying footnotes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

STATEMENT OF ACTIVITIES

For the year ended December 31, 2022

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 85,042	\$ -	\$ -	\$ -	\$ (85,042)	\$ -	\$ (85,042)
Public safety	4,666	-	-	-	(4,666)	-	(4,666)
Public works	252,549	21,687	-	-	(230,862)	-	(230,862)
Intergovernmental agreement	-	-	411,225	-	411,225	-	411,225
Interest and related costs on long-term debt	560,917	-	-	-	(560,917)	-	(560,917)
Total primary government	903,174	21,687	411,225	-	(470,262)	-	(470,262)
Business-type activities							
Water and sewer	1,038,040	583,767	-	-	-	(454,273)	(454,273)
Total business-type activities	\$ 1,038,040	\$ 583,767	\$ -	\$ -	-	(454,273)	(454,273)
General revenues (expenses):							
Interfund transfers					(3,000)	3,000	-
Interest revenue					16,619	-	16,619
Total general revenues and transfers					13,619	3,000	16,619
Change in net position					(456,643)	(451,273)	(907,916)
Net position - beginning					(12,635,148)	8,437,985	(4,197,163)
Net position - ending					\$ (13,091,791)	\$ 7,986,712	\$ (5,105,079)

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

Cornerstone Metropolitan District No. 1

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2022

	General Fund
ASSETS	
Investments in pooled cash	\$ 786,387
Accounts receivable, net	-
Intergovernmental receivable	3,107
Prepaid expense	30,522
Total Assets	\$ 820,016
LIABILITIES	
Accounts payable	\$ 48,851
Accrued liabilities	621
Total liabilities	49,472
FUND BALANCES	
Nonspendable fund balance, prepaid expense	30,522
Restricted for emergencies	13,636
Assigned for subsequent years budget	73,262
Assigned for infrastructure repairs	550,000
Unassigned	103,124
Total fund balances	770,544
Total liabilities and fund balance	\$ 820,016
Total governmental fund balance per above	\$ 770,544
<p>Amounts reported for governmental activities in the statement of net position excluded from the governmental fund balance because:</p>	
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and are excluded from the funds.</p>	741,616
<p>Receivables owed to the District not available to cover current costs:</p>	
<p>From Cornerstone Metro District No. 2:</p>	
Capital and service obligation	13,833,407
Less allowance for uncollectible capital and service obligations	(13,833,407)
<p>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:</p>	
Lease payable	(79,744)
Developer advance payable	(7,006,498)
Accrued interest payable	(7,532,709)
Net position of governmental activities	\$ (13,091,791)

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

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

For the year ended December 31, 2022

	General Fund
Revenues	
Intergovernmental revenue - Cornerstone Metro District No. 2	\$ 416,225
Operations fee and other income	21,687
Interest income	16,619
Total general revenues	<u>454,531</u>
Expenditures	
General Government	
Accounting, management, and audit	73,833
Legal and professional fees	32,624
Insurance	19,849
Other general expense	18,224
Facilities	4,899
Allocated overhead	(64,387)
Public Safety	
Fire and EMS	2,000
Welcome Center	2,666
Public Works	
Contracted services	27,419
Road repairs and maintenance	145,670
Debt payments	
Principal	38,761
Interest	4,799
Total expenditures	<u>306,357</u>
Excess of revenue over (under) expenditures	148,174
Other financing sources(uses)	
Interfund transfers out	<u>(3,000)</u>
Total other financing sources (uses)	(3,000)
Net change in fund balance	145,174
Fund Balances:	
Beginning of the year	625,370
End of the year	<u>\$ 770,544</u>

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

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

For the year ended December 31, 2022

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

Net change in fund balance - governmental funds	\$	145,174
<p>Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay costs are capitalized and depreciated over the estimated useful life of the asset.</p>		
Capital outlay	-	
Depreciation expense	<u>(79,460)</u>	(79,460)
<p>In the fund financial statements principal and interest costs on long term debt are recognized as expenses as payments are made. In the government wide statements interest costs are recognized as expenses when they are incurred.</p>		
Principal payments on debt	38,761	
Change in accrued interest on long-term debt	<u>(556,118)</u>	(517,357)
<p>Capital and service obligations and long-term receivables reported in the Statement of Net Position are not available to cover current liabilities and therefore are not reported as revenues in the fund financial statements. These are the current changes in long term receivables that are recognized in the statement of activities but not in the fund financial statements.</p>		
Decrease in current year uncollectible receivables		(5,000)
Delayed property tax receipts		<u>-</u>
Change in net position of governmental activities	\$	<u><u>(456,643)</u></u>

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

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

For the year ended December 31, 2022

Operating revenues		
Water use fees		\$ 517,867
Sewer use fees		20,900
Tap fees		45,000
Other		14,910
Total revenues		<u>598,677</u>
Operating expenses		
Water operating expenses		429,895
Sewer operating expenses		55,459
Depreciation expense		532,286
Total operating expense		<u>1,017,640</u>
Net operating (loss)		<u>(418,963)</u>
Non-operating revenues (expenses)		
Interest expense		(20,400)
Transfer from general fund		3,000
Total non-operating revenues (expenses)		<u>(17,400)</u>
Change in net position		(436,363)
Net position - beginning		8,437,985
Net position - ending		<u><u>\$ 8,001,622</u></u>

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

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

For the year ended December 31, 2022

Cash flows from operating activities	
Cash received from customers	\$ 593,779
Cash paid to suppliers for goods and services	(375,071)
Cash paid to employees	(80,566)
Cash paid to General Fund for allocated overhead	(29,717)
Net cash provided by (used in) operating activities	<u>108,425</u>
Cash flows from non-capital financing activities	
Transfers from (to) governmental funds	<u>3,000</u>
Net cash provided by non-capital financing activities	3,000
Cash flows from capital and related financing activities	
Cash from tap fees	45,000
Purchase of vehicles and equipment	<u>(37,967)</u>
Net cash provided by capital and related financing activities	7,033
Net increase (decrease) in cash and cash equivalents	118,458
Cash and cash equivalents, beginning of year	<u>362,508</u>
Cash and cash equivalents, end of year	<u>\$ 480,966</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (418,963)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	532,286
Tap fees	(45,000)
(Increase) decrease in accounts receivable	40,102
Increase (decrease) in accounts payable	<u>-</u>
Total adjustments	<u>527,388</u>
Net cash provided (used) by operating activities	<u>\$ 108,425</u>

The accompanying notes are an integral part of this statement.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE A – DEFINITION OF REPORTING ENTITY

Cornerstone Metropolitan District No. 1 (the “District”), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized concurrently with Cornerstone Metropolitan District No. 2 (“District No. 2” and 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, as amended, 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.

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 one employee for water and sewer operations, and contracts for all of other management and professional services.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Government-wide and Fund Financial Statements

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

Governmental activities are normally supported by property taxes collected by District No. 2 and transferred to the District. Both statements distinguish between governmental activities, which normally

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Government-wide and Fund Financial Statements – Continued

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.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Expenditures for capital outlay are shown as increases in assets and redemption of long-term debts are recorded as a reduction in liabilities.

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

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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 community's water and sewer systems.

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

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

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

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

3. Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Budgets

at the total fund expenditures level and lapses at year end. The District’s Board of Directors can modify the budget by line item within the total appropriation without notification and publication requirements. The budget includes each fund presented on the modified accrual basis of accounting.

4. Capital Assets

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

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

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

5. Fund Equity

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

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Fund Equity–Continued

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

6. Fund Balance Classifications

The total fund balance of the governmental funds was \$770,544 as of December 31, 2022. Of this balance, \$30,522 was non-spendable for prepaid expense, \$13,636 was restricted for emergencies, as required by TABOR, \$550,000 is assigned for future road and public works projects, \$73,262 is assigned as budgeted 2023 expenditures, and the remaining balance of \$103,124 is unassigned.

NOTE C – CASH AND INVESTMENTS

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

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE C – CASH AND INVESTMENTS – CONTINUED

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, 2022, the District's cash deposits had a bank and carrying balance of \$179,517, of which \$179,517 was FDIC insured.

1. Investments

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

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

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

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

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

Colorado Local Government Liquid Asset Trust (ColoTrust), a local government investment pool, is rated AAAM by Standard & Poor's.

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE C – CASH AND INVESTMENTS – CONTINUED

As of December 31, 2022, the District had the following investments:

Investment	Maturity	<u>Fair Value</u>
COLOTRUST PLUS+	Weighted average under 60 days	<u>\$ 1,087,836</u>

2. COLOTRUST

During 2022, the District was invested in the Colorado Local Government Liquid Asset Trust (“ColoTrust”), which is an investment vehicle established for local government entities to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust’s portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust’s investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian’s internal records segregate investments owned by the Trust.

NOTE D – CAPITAL ASSETS

An analysis of the changes in net capital asset during 2022 follows:

	Balance December 31, 2021	Additions	Retirements	Balance December 31, 2022
Governmental Activities:				
Capital assets, non-depreciable				
Land	\$ 11,990	\$ –	\$ –	\$ 11,990
Capital assets, depreciable:				
Equipment	193,479	–	–	193,479
Roads	1,222,939	–	–	1,222,939
Accumulated depreciation	<u>(607,332)</u>	<u>(79,460)</u>	<u>–</u>	<u>(686,792)</u>
Governmental-type activities, depreciable capital assets, net	<u>809,086</u>	<u>(79,460)</u>	<u>–</u>	<u>729,626</u>
Governmental-type activities total capital assets, net	<u>\$ 821,076</u>	<u>\$ (79,460)</u>	<u>\$ –</u>	<u>\$ 741,616</u>

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE D – CAPITAL ASSETS – CONTINUED

Business- Type Activities:

Capital assets, depreciable:

Water and Sewer	\$ 15,570,032	\$ 37,967	\$ –	\$ 15,607,999
Equipment	40,352	–	–	40,352
Accumulated depreciation	<u>(7,069,078)</u>	<u>(532,286)</u>	<u>–</u>	<u>(7,601,364)</u>
Business-type activities, depreciable capital assets, net	\$ <u>8,541,306</u>	\$ <u>(477,236)</u>	\$ <u>–</u>	\$ <u>8,046,987</u>

Depreciation expense charged in 2022 to the public works, and water and sewer functions of the District were \$79,460 and \$532,286, respectively.

NOTE E – LONG-TERM CAPITAL AND SERVICE OBLIGATIONS RECEIVABLE

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

The long term service obligation and related allowance for un-collectability is as follows at December 31, 2022:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Capital and service obligation receivable, December 31, 2022	\$ 13,833,407	\$ 45,365
Allowance for uncollectable obligation	<u>(13,833,407)</u>	<u>(45,365)</u>
Capital and service obligation, net	<u>\$ –</u>	<u>\$ –</u>

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE F – LONG-TERM LIABILITIES

The following is an analysis of changes in the District’s long- term liabilities for the year ended December 31, 2022:

	Balance December 31, <u>2021</u>	<u>Additions</u>	<u>Payments</u>	Balance December 31, <u>2022</u>	Due Within <u>One Year</u>
Developer advance					
General fund operations	\$ 212,260	\$ –	\$ –	\$ 212,260	\$ –
Water and Sewer fund	340,000	–	–	340,000	–
Capital	<u>6,794,238</u>	<u>–</u>	<u>–</u>	<u>6,794,238</u>	<u>–</u>
Total developer advance	<u>7,346,498</u>	<u>–</u>	<u>–</u>	<u>7,346,498</u>	<u>–</u>
Equipment lease	<u>118,505</u>	<u>–</u>	<u>(38,761)</u>	<u>79,744</u>	<u>40,684</u>
Total long-term debt	<u>\$ 7,465,003</u>	<u>\$ –</u>	<u>\$ (38,761)</u>	<u>\$ 7,426,242</u>	<u>\$ 40,684</u>

1. Developer Advances

The District entered into an Advance and Reimbursement Agreements with the Original Developer, Cornerstone Montrose, LLC, where the Original Developer was to provide for the advancement of certain monies to the District for capital improvement costs and operation and maintenance costs. Pursuant to these agreements, the Original Developer agreed to advance amounts not to exceed the aggregate of \$7,000,000 for capital improvement costs and \$500,000 for operating and maintenance costs. The Advance and Reimbursement Agreement for capital improvement costs was amended in November 2010 to \$7,800,000 and the Advance and Reimbursement Agreement for operating and maintenance costs was amended in March 2009 to \$1,000,000. The District agreed to repay the Original Developer, along with accrued interest, at a rate of 6% simple interest. The before-mentioned agreements do not constitute a multiple-fiscal year obligation. Due to the sale of the remaining property of the Original Developer, the before-mentioned agreements were not renewed for 2012 or subsequent years; however, the District continues to report the amounts owed that had previously been advanced. As of December 31, 2022 outstanding advances totaled \$552,260 for operations and \$0 for capital, plus accrued interest of \$419,740.

Pursuant to an Amended and Restated Infrastructure 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 Original Developer has provided on the District’s behalf with the understanding that the District would acquire such improvements from the Original Developer at some future point in time. Advances made to the District will accrue interest at a rate of 8% until paid. This agreement does not constitute a multi-year fiscal obligation. Any infrastructure acquisitions which cannot be immediately reimbursed to the Original Developer shall be added to the balance owed to the Original

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE F – LONG-TERM LIABILITIES – CONTINUED

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 Original Developer and will not be shown as a liability due to the Original Developer. This agreement was also not renewed for 2012 or subsequent years; however, the District continues to report the amounts owed from previous acceptances from which funds were not available to reimburse the Original Developer. As of December 31, 2022, outstanding advances total \$6,794,238 and accrued interest totals \$7,358,452. Although the District does not currently, nor does it ever expect to have the ability to repay these amounts, the District is required to report the balances as being owed.

2. Lease

In November 2019, the District entered into a lease to purchase snowplowing equipment for \$193,479. Monthly lease principal and interest payments are \$3,630 for 60 months with an interest rate of 4.85%.

Future lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	40,684	2,877	43,561
2024	39,060	869	39,929
Total	<u>\$ 79,744</u>	<u>\$ 3,746</u>	<u>\$ 83,490</u>

3. Debt Authorization

On November 2, 2004, the District electors authorized the issuance of indebtedness totaling \$787,500,000 at an interest rate not to exceed 12%. However, pursuant to the Service Plan, the District will not issue more than \$30,000,000 in indebtedness. The following schedule shows the amounts authorized and unissued as of December 31, 2022:

	<u>Authorized November 2, 2004</u>	<u>Authorization Used, Series 2006</u>	<u>Remaining at December 31, 2014</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

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE F – LONG-TERM LIABILITIES – CONTINUED

Fire and ambulance	60,000,000	–	60,000,000
Operations and maintenance	60,000,000	–	60,000,000
Intergovernmental contracts	60,000,000	–	60,000,000
Reimbursement agreements	60,000,000	–	60,000,000
Management services	7,500,000	–	7,500,000
Refunding of debt	<u>60,000,000</u>	<u>–</u>	<u>60,000,000</u>
Total	<u>\$ 787,500,000</u>	<u>\$ 21,120,000</u>	<u>\$ 766,380,000</u>

NOTE G – NET POSITION

The District has net position consisting of three components – net investment in capital assets of \$8,747,620, restricted of \$13,636, and unrestricted of \$(13,851,425).

Investment in capital assets consists of capital assets, net of accumulated depreciation and related debt.

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 \$13,636 as of December 31, 2022 which is restricted for emergencies as required by Colorado legislation.

NOTE H – RELATED PARTIES

Some of the members of the Board of Directors for the District are also members of the Board of Directors for District No. 2, Board of Directors for the Cornerstone Owners Association (“COA”), and/or affiliated with the New Developer, Cornerstone Acquisition Group, LLC.

NOTE I – ECONOMIC DEPENDENCY

As of December 31, 2022 the District has a net balance of \$11,095 owed from customers and \$3,370 owed by the developer.

NOTE J – 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’

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE J – RISK MANAGEMENT – CONTINUED

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.

NOTE K – INTERGOVERNMENTAL AGREEMENTS

1. District Facilities Construction and Service Agreement

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

2. District Water Agreements

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

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE K – INTERGOVERNMENTAL AGREEMENTS – CONTINUED

3. Dave Wood Road Agreement

On July 10, 2008 the District entered into an agreement with Ouray County for additional access to the subdivision through Dave Wood Road. The agreement provides a mechanism for joint funding of maintenance costs related to Dave Wood Road whereby the District shall make an annual contribution to Ouray County of 10% of the budgeted amount established by the DWR Maintenance Plan and Budget for the upcoming year. During 2022, \$-0- was paid by the District pursuant to the agreement.

4. Government Springs Road Maintenance Agreement

On May 1, 2006 the District entered into an agreement with Ouray County and the Original Developer which provides a mechanism for joint funding of maintenance costs related to Government Springs Road. Government Springs Road is the primary access to the subdivision and per the agreement, the District shall make an annual contribution to Ouray County of 80% of the budgeted amount established by the GSR Maintenance Plan and Budget for the upcoming year. During 2022, \$-0- was paid by the District pursuant to the agreement.

5. Montrose Fire Protection District Agreement

On June 23, 2009, the District (“CMD”) entered into an agreement with Montrose Fire Protection District to provide joint support in the event of an emergency at the Cornerstone subdivision. Per the agreement, the Fire District agrees to provide, when available, fire protection and emergency medical services within the subdivision. CMD will supplement the Fire District’s efforts using a reserve of volunteers and equipment supplied by Horsefly Volunteer Fire District, which the District is a member of, and all costs associated with a response by the Fire District to an event at Cornerstone shall 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 2022, \$-0- was paid by the District pursuant to the agreement.

NOTE L – 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

Cornerstone Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE L – TAX, SPENDING AND DEBT LIMITATIONS – CONTINUED

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, 2022, the District had an emergency reserve of \$13,636. 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 up to \$60,000,000 annually, without limitation to rate, to pay the District's operations, maintenance and other expenses. The election also allows the District to collect, spend and retain all revenues without regard to the limitations contained within Article X, Section 20 of the Colorado constitution.

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

REQUIRED SUPPLEMENTARY INFORMATION

Cornerstone Metropolitan District No. 1

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

For the year ended December 31, 2022

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental agreement	\$ 413,750	\$ 416,225	\$ 2,475
Operations fee and other income	10,000	21,687	11,687
Interest income	250	16,619	16,369
Total revenues	<u>424,000</u>	<u>454,531</u>	<u>30,531</u>
Expenditures			
General government			
Accounting, management, and audit	96,500	73,833	22,667
Legal fees	57,000	32,624	24,376
Insurance	23,100	19,849	3,251
Other general expenses	28,400	18,224	10,176
Facilities	6,850	4,899	1,951
Contingency	40,000	-	40,000
Allocated overhead	(96,493)	(64,387)	(32,106)
Public safety			
Fire and emergency medical	4,000	2,000	2,000
Welcome Center	3,000	2,666	334
Public works			
Contracted services	28,000	27,419	581
Road repair and maintenance	97,713	145,670	(47,957)
Debt payments			
Principal payments	38,761	38,761	-
Interest payments	4,799	4,799	-
Total expenditures	<u>331,630</u>	<u>306,357</u>	<u>25,273</u>
Excess of Revenues Over (Under) Expenditures	92,370	148,174	55,804
Other financing sources and (uses)			
Interfund transfers (out)	(146,000)	(3,000)	143,000
Total other financing sources and (uses)	<u>(146,000)</u>	<u>(3,000)</u>	<u>143,000</u>
Net change in fund balance	(53,630)	145,174	198,804
Fund balance beginning of year	599,982	625,370	25,388
Fund balance end of year	<u>\$ 546,352</u>	<u>\$ 770,544</u>	<u>\$ 224,192</u>

Cornerstone Metropolitan District No. 1

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

For the year ended December 31, 2022

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Water use fees	517,807	532,867	\$ 15,060
Sewer use fees	17,200	20,900	3,700
Tap fees	30,000	45,000	15,000
Transfer from General Fund	146,000	3,000	(143,000)
Other	-	14,910	14,910
Total revenues	<u>711,007</u>	<u>616,677</u>	<u>(94,330)</u>
Expenditures			
Water operations			
Water purchases and pumping costs	384,836	336,506	48,330
Payroll	80,073	80,566	(493)
Professional services	11,270	6,325	4,945
Repairs and maintenance	45,000	6,806	38,194
Other expense	4,000	4,816	(816)
Allocated overhead from general fund	44,535	29,717	14,818
Capital outlay	8,000	3,126	4,874
Contingency	20,000	-	20,000
Sewer operations			
Contracted services	14,310	10,733	3,577
Repairs and maintenance	9,200	7,965	1,235
Allocated expense from water operations	26,691	26,855	(164)
Allocated overhead from general fund	14,845	9,906	4,939
Sewer contingency	2,500	-	2,500
Total expenditures	<u>665,260</u>	<u>523,321</u>	<u>141,939</u>
Net income non-GAAP basis	<u>\$ 45,747</u>	93,356	<u>\$ 47,609</u>
Reconciling differences between budgetary basis and generally accepted accounting principles (GAAP):			
Accrued interest expense		(20,400)	
Delayed water receipts		(15,000)	
Capital outlay		37,967	
Depreciation expense		<u>(532,286)</u>	
Net loss (GAAP Basis)		<u>\$ (436,363)</u>	