



**COTTON RANCH METROPOLITAN DISTRICT**  
**FINANCIAL STATEMENTS AND REPORT OF**  
**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**December 31, 2011**

## CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
<b>BASIC FINANCIAL STATEMENTS</b>	
STATEMENT OF NET ASSETS .....	7
STATEMENT OF ACTIVITIES .....	8
BALANCE SHEET – GOVERNMENTAL FUNDS.....	9
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS .....	10
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS .....	11
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES.....	12
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND .....	13
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUND .....	14
STATEMENT OF CASH FLOWS – PROPRIETARY FUND .....	15
NOTES TO FINANCIAL STATEMENTS .....	16
<b>SUPPLEMENTAL INFORMATION</b>	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – DEBT SERVICE FUND.....	30
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL – PROPRIETARY FUND .....	31
SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAX COLLECTIONS .....	32

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

March 23, 2012

The Board of Directors  
Cotton Ranch Metropolitan District

We have audited the accompanying financial statements of the governmental activities, the business-type activity, and each major fund of Cotton Ranch Metropolitan District as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cotton Ranch Metropolitan District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.



Board of Directors  
Cotton Ranch Metropolitan District  
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cotton Ranch Metropolitan District's financial statements as a whole. The Debt Service Fund and Proprietary Fund budgetary schedules and property tax statistical schedule are presented for purposes of additional analysis and are not a required part of the financial statements. The Debt Service Fund and Proprietary Fund budgetary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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. The property tax statistical schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

Cotton Ranch Metropolitan District  
Management Discussion and Analysis  
December 31, 2011

This management's discussion and analysis of the Cotton Ranch Metropolitan District's financial statements provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should be read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the District's overall financial performance.

#### USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two types of information on the same statement that present different views of the District:

- *Government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- *Fund financial statements* that focus on *individual parts* of the District government, reporting the District's operations *in more detail* than the government-wide statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Additional supplemental information has also been included to enhance the reader's understanding of the financial statements.

#### *Government-wide Statements*

The government-wide statements consist of the Statement of Net Assets and the Statement of Activities. These statements report information about the District as a whole and include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. The District's net assets – the difference between assets and liabilities – are one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets is one indicator of whether its *financial health* is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and the condition of the infrastructure, are needed to assess the *overall health* of the District.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant funds – not the District as a whole. The District's governmental funds include the General Fund and the Debt Service Fund. Unlike government-wide financial statements, the focus of the fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Cotton Ranch Metropolitan District  
Management Discussion and Analysis  
December 31, 2011

*Governmental funds* – The District’s activity is reported as a governmental fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. The funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term view* of the District’s general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is provided in reconciliations following the fund financial statements.

THE DISTRICT AS A WHOLE

**Statement of Net Assets**

The perspective of the Statement of Net Assets is of the District as a whole. Following is a summary of the District’s net assets for the fiscal years 2011 and 2010.

	2011			2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	975,486	52,213	1,027,699	997,943	48,820	1,046,763
Capital assets	0	559,157	559,157	0	555,630	555,630
<b>Total assets</b>	<b>975,486</b>	<b>611,370</b>	<b>1,586,856</b>	<b>997,943</b>	<b>604,450</b>	<b>1,602,393</b>
Long-term liabilities outstanding	9,662,880	0	9,662,880	9,905,022	0	9,905,022
Other liabilities	744,948	0	744,948	765,427	0	765,427
<b>Total liabilities</b>	<b>10,407,828</b>	<b>0</b>	<b>10,407,828</b>	<b>10,670,449</b>	<b>0</b>	<b>10,670,449</b>
<b>Net assets:</b>						
Invested in capital assets	0	559,157	559,157	0	555,630	555,630
Restricted for emergencies	771	0	771	839	0	839
Restricted for debt service	25,992	0	25,992	10,013	0	10,013
Unrestricted	(9,459,105)	52,213	(9,406,892)	(9,683,358)	48,820	(9,634,538)
<b>Total net assets</b>	<b>(9,432,342)</b>	<b>611,370</b>	<b>(8,820,972)</b>	<b>(9,672,506)</b>	<b>604,450</b>	<b>(9,068,056)</b>

The District shows a substantial negative balance in net assets. This deficit balance is the result of the District issuing bonds to pay for infrastructure and then conveying that infrastructure to the Town of Gypsum for the Town’s ongoing operation and maintenance of the infrastructure for the benefit of the District’s and Town’s constituents. The most significant items on the statement of net assets are the long term liabilities and these are described in more depth in *Note C*.

**Statement of Activities**

The perspective of the Statement of Activities is of the District as a whole. The statement of activities reflects the cost of program services and the charges for services and sales, grants and contributions offsetting those services. The following detail reflects the total cost of services supported by program revenues and general property taxes, as well as other general revenues, resulting in the overall change in net assets for the fiscal years 2011 and 2010.

Cotton Ranch Metropolitan District  
Management Discussion and Analysis  
December 31, 2011

	2011			2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>REVENUES:</b>						
Program revenues:						
Charges for services	0	71,205	71,205	0	72,571	72,571
Grants and contributions	2,285	14,400	16,685	2,042		2,042
General revenues:						
Taxes	744,565	0	744,565	798,107	0	798,107
Interest and other revenue	5,762	4,527	10,289	8,491	2,326	10,817
<b>Total revenues</b>	<b>752,612</b>	<b>90,132</b>	<b>842,744</b>	<b>808,640</b>	<b>74,897</b>	<b>883,537</b>
<b>EXPENSES:</b>						
General Government	72,214	0	72,214	67,875	0	67,875
Water Activity operations	0	83,212	83,212	0	73,679	73,679
Interest on General Long Term Debt	440,234	0	440,234	454,062	0	454,062
<b>Total expenses</b>	<b>512,448</b>	<b>83,212</b>	<b>595,660</b>	<b>521,937</b>	<b>73,679</b>	<b>595,616</b>
Increase in net assets before transfers	240,164	6,920	247,084	286,703	1,218	287,921
Transfers	0	0	0	0	0	0
<b>Increase (decrease) in net assets</b>	<b>240,164</b>	<b>6,920</b>	<b>247,084</b>	<b>286,703</b>	<b>1,218</b>	<b>287,921</b>
Net assets January 1	(9,672,506)	604,450	(9,068,056)	(9,959,209)	603,232	(9,355,977)
<b>Net assets December 31</b>	<b>(9,432,342)</b>	<b>611,370</b>	<b>(8,820,972)</b>	<b>(9,672,506)</b>	<b>604,450</b>	<b>(9,068,056)</b>

The District's primary source of revenues is property taxes, while secondary revenue sources are water user fees and tap fees (which are reflected as capital grants and contributions). These revenues are used to pay the cost of the general government, the cost of the irrigation water activity expenses, and to pay the District's debt service.

The District operated at a profit in 2011 and 2010. Some of the District's bond agreements require the District to pay the debt service principal and interest annually and all mandatory bond payments have been made. The District's other bond agreements only require the District to pay the debt service principal and interest as the District has the funds available from property taxes generated by the District. The unpaid interest expense has been accrued and will be paid at such time that the District has the funds available or if funds are not available to make these payments by certain future dates, then the obligation to pay the debt service is cancelled. *Note C* explains these provisions of the District's long-term debt obligations in greater detail.

In both 2011 and 2010, the District levied taxes in excess of the interest expense on the bonds, which created a surplus. This surplus was used to make the debt service principal payments.

#### THE DISTRICT'S FUNDS

The fund level financial statements focus on how services were financed in the short-term as well as what remains for future spending. The fund level financial statements are reported on the modified accrual basis of accounting.

At the fund level, under the modified accrual basis of accounting, depreciable assets and their related depreciation expense are not reflected as they are not a current period financial resource or use. In addition, at the fund level, inflows from operating loans are presented as a source of funds while outflows for capital outlay and debt service payments are presented as an expenditure item, as these items represent current period financial resources and uses.

Cotton Ranch Metropolitan District  
Management Discussion and Analysis  
December 31, 2011

The District experienced an increase in fund balances for 2011 because expenditures during the year were less than the revenues collected by the District.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The District's procedures in establishing budgetary data reflected in the financial statements are summarized in *Note A* of the financial statements. Details of the General Fund budget can be seen on Page 13 of the financial statements.

***General Fund Resources (Inflows)***

The District's final General Fund actual revenues and other financing sources in the amount of \$27,998 had a negative variance of (\$11,778) to the final budget of \$39,776, most of which is attributable to Specific Ownership Tax revenues collected by the Debt Service Fund and transferred to the General Fund being less than budgeted.

***General Fund Charges to Appropriations (Outflows)***

The District's final budgetary expenditures and other financing uses of \$29,875 were \$24 less than the final appropriated balance of \$29,899, which represents a small positive variance.

**CAPITAL ASSETS**

At the end of 2011, the District had a total of \$0 invested in governmental activities capital assets and \$559,157 invested in business-type activities capital assets. The minimal increase in business-type activities capital assets over 2010 is due to current year fixed asset additions being slightly higher than current year depreciation. See *Note D, Capital Assets*.

**DEBT ADMINISTRATION**

At December 31, 2011, the District had \$9,662,880 of long-term obligations outstanding. See *Note C, Long-term Debt* for a detail of the terms and annual requirements to amortize the District's long-term debt.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our residents, customers, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact the:

Cotton Ranch Metropolitan District Manager  
c/o Robertson & Marchetti, P.C.  
28 Second Street, Suite 213  
Edwards, CO 81632  
Tel: (970) 926-6060  
Fax: (970) 926-6040



Cotton Ranch Metropolitan District

STATEMENT OF NET ASSETS

December 31, 2011

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 67,491	\$ 30,490	\$ 97,981
Receivables			
Due from county treasurer	1,990	-	1,990
Property taxes receivable	712,715	-	712,715
Water fees receivable	-	17,182	17,182
Tap fees receivable	-	3,600	3,600
Miscellaneous receivable	784	941	1,725
Prepaid expenses	2,244	-	2,244
Bond issue costs, net	190,262	-	190,262
Capital assets (net of accumulated depreciation)			
Non-potable water system, net	-	255,860	255,860
Water rights	-	303,297	303,297
	<u>\$ 975,486</u>	<u>\$ 611,370</u>	<u>\$ 1,586,856</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable	\$ 5,423	\$ -	\$ 5,423
Accrued interest payable	26,810	-	26,810
Deferred revenue	712,715	-	712,715
Non-current liabilities, due within one year			
Bonds	420,000	-	420,000
Non-current liabilities			
Bonds	9,242,880	-	9,242,880
Total Liabilities	<u>10,407,828</u>	<u>-</u>	<u>10,407,828</u>
<b>Net Assets</b>			
Invested in capital assets	-	559,157	559,157
Restricted for emergencies	771	-	771
Restricted for debt service	25,992	-	25,992
Unrestricted	(9,459,105)	52,213	(9,406,892)
Total Net Assets	<u>(9,432,342)</u>	<u>611,370</u>	<u>(8,820,972)</u>
	<u>\$ 975,486</u>	<u>\$ 611,370</u>	<u>\$ 1,586,856</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2011

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Governmental activities:</b>							
General government	\$ 72,214	\$ -	\$ 2,285	\$ -	\$ (69,929)		\$ (69,929)
Interest on long-term debt	440,234	-	-	-	(440,234)		(440,234)
Total governmental activities	<u>512,448</u>	<u>-</u>	<u>2,285</u>	<u>-</u>	<u>(510,163)</u>		<u>(510,163)</u>
<b>Business-type activities:</b>							
Irrigation	83,212	71,205	-	14,400		\$ 2,393	2,393
Total business-type activities	<u>83,212</u>	<u>71,205</u>	<u>-</u>	<u>14,400</u>	<u>-</u>	<u>2,393</u>	<u>2,393</u>
Total	<u>\$ 595,660</u>	<u>\$ 71,205</u>	<u>\$ 2,285</u>	<u>\$ 14,400</u>	<u>(510,163)</u>	<u>2,393</u>	<u>(507,770)</u>
<b>General revenues:</b>							
Property taxes					744,565	-	744,565
Interest earnings					5,762	4,527	10,289
Total general revenues					<u>750,327</u>	<u>4,527</u>	<u>754,854</u>
Change in net assets					240,164	6,920	247,084
Net assets - beginning					(9,672,506)	604,450	(9,068,056)
Net assets - ending					<u>\$ (9,432,342)</u>	<u>\$ 611,370</u>	<u>\$ (8,820,972)</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2011

	General	Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 44,205	\$ 23,286	\$ 67,491
Receivables			
Due from county treasurer	68	1,922	1,990
Property taxes receivable	15,176	697,539	712,715
Miscellaneous receivables	-	784	784
Prepaid expenses	2,244	-	2,244
<b>Total Assets</b>	<b>\$ 61,693</b>	<b>\$ 723,531</b>	<b>\$ 785,224</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable	\$ 5,423	\$ -	\$ 5,423
Deferred property taxes	15,176	697,539	712,715
<b>Total Liabilities</b>	<b>20,599</b>	<b>697,539</b>	<b>718,138</b>
<b>Fund equity</b>			
Nonspendable	2,244	-	2,244
Restricted for emergencies	771	-	771
Restricted for debt service	-	25,992	25,992
Unassigned	38,079	-	38,079
<b>Total Fund Equity</b>	<b>41,094</b>	<b>25,992</b>	<b>67,086</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 61,693</b>	<b>\$ 723,531</b>	<b>\$ 785,224</b>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

December 31, 2011

---

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance - governmental funds	\$ 67,086
Bond issue costs are not reported as assets in the funds, but are shown as an asset in the Statement of Net Assets and amortized over the life of the bonds.	190,262
Long-term liabilities such as bonds are not due and payable in the current period and, therefore, are not reported in the funds.	(9,662,880)
Accrued interest and fees are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(26,810)</u>
Net Assets of Governmental Activities	<u>\$ (9,432,342)</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

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

Year ended December 31, 2011

	General	Debt Service	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 25,499	\$ 719,066	\$ 744,565
Interest	214	5,548	5,762
Intergovernmental	2,285	-	2,285
<b>Total revenues</b>	<u>27,998</u>	<u>724,614</u>	<u>752,612</u>
<b>Expenditures</b>			
General government	29,875	21,185	51,060
Debt service			
Principal	-	390,000	390,000
Interest	-	293,725	293,725
Financial fees	-	3,725	3,725
<b>Total expenditures</b>	<u>29,875</u>	<u>708,635</u>	<u>738,510</u>
Excess of Revenues Over (Under) Expenditures	(1,877)	15,979	14,102
<b>Fund Balance - beginning</b>	<u>42,971</u>	<u>10,013</u>	<u>52,984</u>
<b>Fund Balance - ending</b>	<u><u>\$ 41,094</u></u>	<u><u>\$ 25,992</u></u>	<u><u>\$ 67,086</u></u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

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

Year ended December 31, 2011

---

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

Net Change in Fund Balances - Governmental Funds	\$ 14,102
Governmental funds report the repayment of principal on long-term debt as expenditures. However, these repayments are not reported as expenses in the Statement of Activities, but rather a reduction of debt in the Statement of Net Assets. This amount is the difference in the treatment of these repayments.	390,000
Governmental funds do not record the amount of interest and fees on long-term debt that has accrued since the end of the year. However, these liabilities are reported in the Statement of Net Assets and the related expense is reported in the Statement of Activities. This is the amount by which accrued interest and fees increased over the prior year.	(146,509)
Governmental funds report bond issuance costs as expenditures. However, in the Statement of Activities the cost of obtaining debt is allocated over the life of the related bonds and reported as amortization expense. This is the amount of the current year amortization expense.	<u>(17,429)</u>
Change in Net Assets of Governmental Activities	<u>\$ 240,164</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

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

Year ended December 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Property taxes	\$ 24,947	\$ 24,707	\$ (240)
Specific ownership taxes	1,123	792	(331)
Intergovernmental	1,400	2,285	885
Interest earnings	536	214	(322)
<b>Total revenues</b>	<u>28,006</u>	<u>27,998</u>	<u>(8)</u>
<b>Expenditures</b>			
Accounting and auditing	41,250	40,316	934
Insurance	2,400	2,102	298
Legal	3,000	5,175	(2,175)
Treasurer's fees	748	751	(3)
Repair and maintenance	2,600	8,428	(5,828)
Other	4,800	2,977	1,823
Allocation of overhead	(29,899)	(29,874)	(25)
Contingency	5,000	-	5,000
<b>Total expenditures</b>	<u>29,899</u>	<u>29,875</u>	<u>24</u>
	<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(1,893)</b>	<b>(1,877)</b>
		<b>16</b>	
<b>Other financing sources</b>			
Transfers in	11,770	-	(11,770)
	<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</b>	<b>9,877</b>	<b>(1,877)</b>
		<b>(11,754)</b>	
Fund Balance - beginning	<u>35,849</u>	<u>42,971</u>	<u>7,122</u>
Fund Balance - ending	<u>\$ 45,726</u>	<u>\$ 41,094</u>	<u>\$ (4,632)</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS - PROPRIETARY FUND

Year ended December 31, 2011

	Business-type Activities- Irrigation Enterprise Fund
<b>Revenues</b>	
Water service fees	\$ 71,205
Total revenues	71,205
<b>Expenses</b>	
Repairs and maintenance	42,145
Depreciation	9,537
Augmentation water contract and lease	1,656
Allocation of overhead	29,874
Total expenses	83,212
Operating income (loss)	(12,007)
<b>Non-operating revenues (expenses)</b>	
Investment earnings	4,527
Total non-operating revenues (expenses)	4,527
Income (loss) before contributions and transfers	(7,480)
Capital contributions - tap fees	14,400
Change in net assets	6,920
Total net assets - beginning	604,450
Total net assets - ending	\$ 611,370

The accompanying notes are an integral part of this statement.



Cotton Ranch Metropolitan District

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND

Year ended December 31, 2011

	<u>Business-type Activities- Irrigation Enterprise Fund</u>
Cash flows from operating activities	
Cash received from customers and users	\$ 66,131
Cash paid to suppliers	(73,675)
Net cash provided (used) by operating activities	<u>(7,544)</u>
Cash flows from capital and related financing activities	
Capitalized legal costs	(13,064)
Tap fees received (refunded)	14,400
Net cash provided (used) by capital and related financing activities	<u>1,336</u>
Cash flows from investing activities	
Investment income received	4,527
Net cash provided (used) by investing activities	<u>4,527</u>
Net increase (decrease) in cash	(1,681)
Cash - beginning	<u>32,171</u>
Cash - ending	<u>\$ 30,490</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (12,007)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	9,537
(Increase) decrease in accounts receivable	(5,074)
Total adjustments	<u>4,463</u>
Net cash provided (used) by operating activities	<u>\$ (7,544)</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

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

1. Organization

Cotton Ranch Metropolitan District (the District) is a quasi-municipal corporation and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Eagle County, Colorado. The District was established to provide roads, drainage, landscaping, water, sewer and recreation. The District will retain the assets and provide service for the non-potable irrigation system. Roads, drainage, potable water system, sewer system and landscaping assets have been deeded to and maintained by the Town of Gypsum.

The District has no employees and all operations and administrative functions are contracted.

2. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

3. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Currently, the District has both governmental and business-type activities.

**Government-wide Financial Statements**

In the government-wide Statement of Net Assets, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in four parts: net assets restricted for debt service, net assets restricted for emergencies, invested in capital assets net of related debt, and unrestricted net assets.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

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

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

**Fund Financial Statements**

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The fund focus is on current available resources and budget compliance.

**4. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. At this time the District uses governmental funds and a proprietary fund.

**Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund equity.

The District reports the following major governmental funds:

**General Fund** – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

**Debt Service Fund** – The Debt Service Fund accounts for the servicing of general long-term debt including long-term contractual obligations approved by the District's electorate and revenues generated by property taxes that are required to be used in payment of such long-term debt and contractual obligations.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

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

**Proprietary Fund**

Enterprise Fund – The Enterprise Fund accounts for operations that are financed and 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 financed or recovered primarily through user charges; or where the District has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Operating revenues and expenses for enterprise funds are those that result from providing services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989, are not applied.

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**5. Measurement Focus and Basis of Accounting**

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

**Long-Term Economic Focus and Accrual Basis**

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

**Current Financial Focus and Modified Accrual Basis**

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

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

The accrual basis of accounting is utilized in the proprietary fund type. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense and expenditures for property and equipment are shown as increases in assets.

**6. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

**7. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**8. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity and other interfund transfers are reported as transfers.

**9. Property Taxes**

Property taxes are not due and payable until after the assessment year has ended, and are not included in the budget or Statement of Revenues, Expenditures, and Changes in Fund Balance of the assessment year. Property taxes are recorded as deferred revenue in the year they are levied and measurable. Property tax revenues are recorded as revenue in the year they are available or collected. Property taxes are levied on or before December 15 of each year and attach as an enforceable lien on the property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15.

Cotton Ranch Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

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

**10. Stewardship, Compliance, and Accountability**

**Budgets and Budgetary Accounting**

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by the Colorado statutes, the District followed by the following timetable in approving and enacting a budget for the ensuing years:

- (1) For the 2011 budget year, prior to August 23, 2010, the County Assessor sent the District the assessed valuation of all taxable property within the District's boundaries.
- (2) On or before October 15, 2010, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) The Board held a public hearing on the proposed budget and capital program no later than 45 days prior to the close of the fiscal year.
- (4) For the 2011 budget, prior to December 15, 2010, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2011 budget, the final budget and appropriating resolution was adopted prior to December 31, 2010.
- (6) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end. One supplemental appropriation was made to the proprietary fund of \$10,000.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

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

**11. Capital Assets**

Capital assets, which include construction in progress, are reported in the applicable governmental activities columns in the government-wide financial statements. The District defines capital assets 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 market 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 assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Depreciation is computed using the straight-line method over estimated useful lives, as follows:

	<u>Estimated Lives</u>
Buildings and improvements	20 to 40 years
Infrastructure	30 to 40 years
Equipment and machinery	5 to 15 years

**NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net assets as "Equity in pooled cash."

**Deposits**

As of December 31, 2011, the carrying amount of the District's deposits was \$13,502 and the bank balance was \$73,002. All of the bank balance was covered by federal depository insurance.

Statutes require that any public depository which accepts and holds public funds maintain, as security for public deposits accepted and held by it, not insured by federal depository insurance, eligible collateral having a market value, at all times, equal to at least 102 percent of the amount of public deposits. Banking institutions are monitored by the State of Colorado Banking Commission and must report monthly on all public deposits held. Pledged collateral must be held in joint custody of the bank and of the Public Deposit Protection Act in a safekeeping account held by a third party, usually the Federal Reserve Bank. The pledge collateral cannot be released unless approval is obtained by the banking commission. Savings and Loan institutions are monitored by the State of Colorado Commissioner of Savings and Loan Associations and must report quarterly on all public deposits held. Pledged collateral, usually in the form of mortgages, must be held by a third party institution for the benefit of the commissioner.

As of December 31, 2011, the District had \$6,001 in a money market account to be used for debt service.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

**NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS – CONTINUED**

Investments

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

The District had invested \$78,478 in the Colorado Local Governmental Liquid Asset Trust, (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure.

A reconciliation of the carrying value of deposits and investments reported above to the Statement of Net Assets as of December 31, 2011 is as follows:

Deposits	\$ 13,502
Investments	<u>84,479</u>
Total equity in pooled cash and investments	<u>\$ 97,981</u>



Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**NOTE C – LONG-TERM DEBT**

	<u>Balance at January 1, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at December 31, 2011</u>	<u>Due within one year</u>
By Classification					
2002A – \$3,485,000					
Subordinate Junior					
General Obligation					
Limited Tax					
Refunding Bonds	\$ 2,485,000	\$ –	\$ –	\$ 2,485,000	\$ –
General Obligation					
Bonds	1,000,000	–	–	1,000,000	–
Unpaid interest	1,175,022	147,858	–	1,322,880	–
2006 – \$6,040,000					
Refunding General					
Obligation Bonds	<u>5,245,000</u>	<u>–</u>	<u>(390,000)</u>	<u>4,855,000</u>	<u>420,000</u>
	<u>\$ 9,905,022</u>	<u>\$ 147,858</u>	<u>\$ (390,000)</u>	<u>\$ 9,662,880</u>	<u>\$ 420,000</u>

The detail of the District’s governmental activities long-term obligations is as follows:

**General Obligation Bonds**

**\$3,485,000 Subordinate Junior General Obligation Limited Tax Refunding Bonds, Series 2002A**, dated December 24, 2002, with interest of 2.9% to 5.95% consist of term bonds due December 15, 2035. During 2002, these bonds were exchanged for the tender and cancellation of the District’s 1999B Bonds. The Bonds were refunded to lower the interest rates on the bonds, extend the maturity dates and change the conversion ratio to general obligation bonds. These bonds were issued to the Developer (see Note F).

Pursuant to the Bond Resolution, the District shall convert the Series 2002A Subordinate Junior General Obligation Limited Tax Refunding Bonds to General Obligation Bonds when the ratio of general obligation debt to certified assessed value of the District is less than or equal to thirty-five percent. The mill levy imposed for the payment of debt service on the bonds shall not be greater than fifty (50) mills nor less than thirty-five (35) mills. Any monies on deposit in the bond fund which are available for payment of the bonds (which are not converted bonds) and any other obligations which have a parity lien on the District’s revenues pledged for repayment of the bonds shall be applied in the following order of priority (as more fully described in the bond resolution):

1. to the payment of unpaid interest on the bonds
2. to the payment of unpaid principal on the bonds
3. to the payment of current interest
4. to the payment of current principal

Cotton Ranch Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**NOTE C – LONG-TERM DEBT – CONTINUED**

Thereafter, the balance of any monies in the bond fund, if any, shall be applied to the optional redemption of converted bonds.

On January 1, 2010, \$1,000,000 of the 2002A Subordinate Bonds were converted from limited tax obligation bonds to general obligation bonds per Section 9 of the Series 2002A subordinate Junior General Obligation Limited Tax Refunding Bond Resolution (the Resolution) dated December 10, 2002. The Resolution states that any January 1st on which the principal amount of the District's outstanding unlimited mill levy general obligation bonds is less than or equal to 35% of the certified assessed value of the District, the 2002A bonds will be exchanged for general obligation bonds in denominations of \$500,000.

Pursuant to the bond resolution, any principal or interest on the Subordinate 2002A bonds remaining unpaid after December 31, 2037 shall be deemed to have been paid in full and discharged and the District's obligation will terminate.

The District was able to pay interest on the Series 2002A bonds in the amount of \$59,500 during 2011.

**\$6,040,000 General Obligation Refunding Bonds, Series 2006**, dated December 1, 2006, with interest of 4.00% to 4.50%, consisting of term bonds due December 1, 2022. All bonds maturing on or after December 1, 2017 are callable at the option of the District, at any time on or after December 1, 2016, at par.

The District's Series 2002A and 2006 Bonds will mature as follows:

**Subordinate Bonds**

<u>Year</u>	\$3,485,000 Junior Subordinate 2002A*		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ —	\$ 207,358	\$ 207,358
2013	—	207,358	207,358
2014	—	207,358	207,358
2015	—	207,358	207,358
2016	—	207,358	207,358
2017-2021	—	1,036,790	1,036,790
2022-2026	470,000	1,001,387	1,471,387
2027-2031	1,255,000	769,039	2,024,039
2032-2035	1,760,000	276,676	2,036,676
Total	<u>\$ 3,485,000</u>	<u>\$ 4,120,682</u>	<u>\$ 7,605,682</u>

\*\$1,000,000 was converted to general obligation bonds as of January 1, 2010.

Cotton Ranch Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**NOTE C – LONG-TERM DEBT – CONTINUED**

**General Obligation Refunding Bonds, Series 2006**

Year	\$6,040,000 General Obligation Refunding 2006		
	Principal	Interest	Total
2012	\$ 420,000	\$ 218,040	\$ 638,040
2013	430,000	200,400	630,400
2014	440,000	182,340	622,340
2015	440,000	163,420	603,420
2016	455,000	144,280	599,280
2017-2021	2,245,000	411,860	2,656,860
2022	425,000	20,188	445,188
<b>Total</b>	<b>\$ 4,855,000</b>	<b>\$ 1,340,528</b>	<b>\$ 6,195,528</b>

**Remaining Authorized but Unissued Indebtedness and Obligation to Issue Future Bonds.** On November 8, 1994, May 7, 1996, and May 5, 1998, and November 7, 2006, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$17,000,000 at an interest rate not to exceed 12% per annum. The voter authorized but unissued indebtedness at December 31, 2011 of \$6,315,000 is calculated as follows:

	Original Voter Authorization	Authorization Used For			Remaining Unused Authorization
		1998A Bonds	1998B Bonds	2002A Bonds	
Streets	\$ 9,800,000	\$ (870,000)	\$ (4,410,000)	\$ (1,079,000)	\$ 3,441,000
Water	3,900,000	(575,000)	(1,480,000)	(300,000)	1,545,000
Sewer	3,300,000	(555,000)	(1,110,000)	(306,000)	1,329,000
<b>Total</b>	<b>\$ 17,000,000</b>	<b>\$ (2,000,000)</b>	<b>\$ (7,000,000)</b>	<b>\$ (1,685,000)</b>	<b>\$ 6,315,000</b>

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**NOTE D – CAPITAL ASSETS**

Capital asset activity for business-type activities for the year ended December 31, 2011 follows:

	<u>Balance at January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2011</u>
<b>Business-type Activities</b>				
Capital assets not being depreciated				
Water rights	\$ 290,233	\$ 13,064	\$ –	\$ 303,297
Capital assets being depreciated				
Non-potable water system	381,492	–	–	381,492
Maintenance vehicles	5,230	–	(5,230)	–
Accumulated depreciation	<u>(121,325)</u>	<u>(9,537)</u>	<u>5,230</u>	<u>(125,632)</u>
Total capital assets being depreciated, net	<u>265,397</u>	<u>(9,537)</u>	<u>–</u>	<u>255,860</u>
Business-type activity capital assets, net	<u>\$ 555,630</u>	<u>\$ 3,527</u>	<u>\$ –</u>	<u>\$ 559,157</u>

Depreciation expense for the year ended December 31, 2011 was \$9,537.

**NOTE E – RELATED PARTY AND CONCENTRATIONS**

Cotton Ranch Company, LLC, was the Developer of Cotton Ranch from 1995 until December 2003 at which time ASW Realty (ASW) purchased the remaining developable property in the District including zoning for 247 residential units. ASW developed 106 residential lots and constructed approximately 58 homes and then in early 2010 sold its remaining interests in the District to the Pauls Corporation (Pauls). Certain members of the Board of Directors are associated with the Cotton Ranch Company, LLC.

The Cotton Ranch Company, LLC financed the cost of infrastructure construction and during 1998, it was reimbursed approximately \$900,000 in cash and \$7,000,000 in series 1998B Subordinate General Obligation Limited Tax Bonds. These bonds were refunded on June 9, 1999 by the issuance of the 1999 Series A and B Bonds. When the 1998B Subordinate General Obligation Limited Tax Bonds were refunded, the Cotton Ranch Company, LLC received \$3,500,000 in Series 1999B Subordinate General Obligation Limited Tax Bonds (refunded with 2002A Subordinate Junior General Obligation Limited Tax Refunding Bonds) and \$3,104,532 in cash. Reimbursement to the Cotton Ranch Company, LLC included \$1,010,000 for construction management service fees.

A construction company affiliated with the Cotton Ranch Company, LLC performed certain construction within the District prior to 1998 and was paid approximately \$2,225,000 through that date.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

**NOTE E – RELATED PARTY AND CONCENTRATIONS – CONTINUED**

In addition to the above costs, Cotton Ranch Company, LLC has incurred additional infrastructure development costs and has expressed its expectation to the District that it be reimbursed for the additional infrastructure costs up to the amount of the District's voted authorization to issue additional bonds. The District has been advised by its general counsel that it has no legal obligation to reimburse Cotton Ranch Company, LLC for these additional costs and the District has therefore not recorded a liability for these costs.

In December 2003 the District entered into an Infrastructure Acquisition Agreement with ASW pursuant to which the District agreed to reimburse ASW up to \$5.5 million of eligible infrastructure construction costs incurred by ASW. Such reimbursement will be made after ASW has provided documentation of the cost of constructing the infrastructure and is intended to be by the District's issuance of limited tax general obligation bonds when the District has the ability to repay such bonds.

As of December 31, 2011 Pauls and its affiliates owned approximately 9.0% of the assessed value of property in the District. Approximately \$65,000 of the District's 2011 property tax revenue is attributable to property owned by Pauls.

In addition, a company owned by a current board member was paid \$4,751 for services provided in relation to the irrigation system. There was \$0 due to this board member's company as of December 31, 2011.

**NOTE F – COMMITMENTS AND CONTINGENCIES**

During the normal courses of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives have disclosed that they are not aware of any material outstanding claims against the District at December 31, 2011.

**NOTE G – 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 has elected to participate in the Colorado Special District Property and Liability Pool (the Pool), which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, automobile physical damage and liability, public official's liability and machinery coverage to its members. Members of the Pool are required to make additional surplus contributions. 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. During the year ended December 31, 2011 the Pool made no distributions to the District.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

**NOTE G – RISK MANAGEMENT – CONTINUED**

Condensed financial statement data for the Colorado Special Districts Property and Liability Pool as of December 31, 2011 is as follows:

	<u>Colorado Special Districts Property and Liability Pool</u>
Assets	\$ <u>32,049,483</u>
Liabilities	\$ 14,644,379
Net Assets	<u>17,405,104</u>
	<u>\$ 32,049,483</u>
Revenue	\$ 10,915,289
Investment Income and Other	<u>303,746</u>
Total Revenue	11,219,035
Expenses	<u>11,355,571</u>
Excess of Revenues Over Expenses	<u>\$ (136,536)</u>

**NOTE H – TABOR AMENDMENT**

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations which apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that of the prior year, extension of any expiring tax, or tax policy change directly causing a new tax revenue gain to any local government. Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple fiscal year or other financial obligation unless adequate present cash reserves are pledged irrevocable and held for payments in future years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2011, the District had the required 3% reserve of \$771, reserved for emergencies.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

---

**NOTE H – TABOR AMENDMENT – CONTINUED**

Under Tabor, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. The District's first year of operations ended December 31, 1995. Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

On November 8, 1994, a majority of the District's electors authorized the District to collect and spend or retain all revenues through 1998 without regard to any limitations under TABOR.

On November 8, 1994, a majority of the District's electors authorized the District to increase taxes \$50,000 annually in 1996 and thereafter by the imposition of an ad valorem property tax levy which shall not exceed a total of 30 mills for the general operations of the District.

On May 5, 1998, a majority of the District's electors authorized the District to collect, keep and expend all District revenues received in 1998 and each year thereafter without regard to limitations under TABOR.

On May 5, 1998, a majority of the District's electors authorized the District to increase taxes \$12,500 annually in the first full fiscal year, upon real property proposed to be included into the District.

**SUPPLEMENTAL INFORMATION**



Cotton Ranch Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND

Year ended December 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Property taxes	\$ 703,516	\$ 696,724	\$ (6,792)
Specific ownership taxes	31,658	22,342	(9,316)
Interest income	3,518	5,548	2,030
<b>Total revenues</b>	<u>738,692</u>	<u>724,614</u>	<u>(14,078)</u>
<b>Expenditures</b>			
Treasurer's fees	21,105	21,185	(80)
Principal reduction	390,000	390,000	-
Interest	312,366	293,725	18,641
Other - Paying Agent Fees	2,300	3,725	(1,425)
<b>Total expenditures</b>	<u>725,771</u>	<u>708,635</u>	<u>17,136</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	12,921	15,979	3,058
<b>Other financing sources (uses)</b>			
Transfer out	(11,770)	-	11,770
<b>Total other financing sources (uses)</b>	<u>(11,770)</u>	<u>-</u>	<u>11,770</u>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	1,151	15,979	14,828
Fund Balance - beginning	<u>10,015</u>	<u>10,013</u>	<u>(2)</u>
Fund Balance - ending	<u>\$ 11,166</u>	<u>\$ 25,992</u>	<u>\$ 14,826</u>

Cotton Ranch Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN NET  
ASSETS - BUDGET AND ACTUAL - PROPRIETARY FUND

Year ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Water service fees	\$ 75,782	\$ 75,782	\$ 71,205	\$ (4,577)
Investment earnings	634	634	4,527	3,893
Tap fees	-	-	14,400	14,400
Total revenues	<u>76,416</u>	<u>76,416</u>	<u>90,132</u>	<u>13,716</u>
<b>Expenses</b>				
Repairs and maintenance	35,100	35,100	42,145	(7,045)
Augmentation water contract and lease	1,656	1,656	1,656	-
Legal and professional expense	3,000	13,000	13,064	(64)
Allocation of overhead	29,899	29,899	29,874	25
Miscellaneous expenses	11,000	11,000	-	11,000
Total expenses	<u>80,655</u>	<u>90,655</u>	<u>86,739</u>	<u>3,916</u>
Change in net assets budgetary basis	<u>\$ (4,239)</u>	<u>\$ (14,239)</u>	<u>3,393</u>	<u>\$ 17,632</u>
<b>Reconciliation to GAAP basis</b>				
Capitalized capital outlay and legal expense			13,064	
Depreciation			<u>(9,537)</u>	
Change in net assets GAAP basis			6,920	
Total net assets - beginning			<u>604,450</u>	
Total net assets - ending			<u>\$ 611,370</u>	

**OTHER INFORMATION**

Cotton Ranch Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAX COLLECTIONS

December 31, 2011

<u>Year Ended December 31.</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>	<u>Property Taxes</u>		<u>Percent Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
1999	\$ 3,959,540	30.000	\$ 118,786	\$ 118,786	100.0%
2000	7,039,370	30.000	211,181	210,824	99.8%
2001	7,984,450	30.000	239,533	239,238	99.9%
2002	8,110,670	38.060	308,692	308,388	100.0%
2003	8,381,140	42.016	352,143	352,122	99.9%
2004	8,112,638	42.016	340,808	340,808	100.0%
2005	8,238,870	45.231	372,652	371,354	99.65%
2006	9,046,300	45.345	410,204	410,204	100.0%
2007	10,018,350	39.074	391,457	391,457	100.0%
2008	14,612,390	38.414	561,321	557,720	99.36%
2009	15,966,210	39.092	624,152	623,518	99.90%
2010	19,787,380	39.067	773,034	772,568	99.94%
2011	18,548,230	39.274	728,463	721,431	99.03%
2012	11,283,210	63.166	712,715		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of assessment.