



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

December 31, 2008

## CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	2
FINANCIAL STATEMENTS	
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
SUPPLEMENTAL INFORMATION	
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 19, 2009

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, 2008, 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, 2008, 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.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cotton Ranch Metropolitan District basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Cotton Ranch Metro District  
Management Discussion & Analysis  
December 31, 2008

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, 2008. 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 major

Cotton Ranch Metro District  
Management Discussion & Analysis  
December 31, 2008

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.

*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 2008 and 2007.

	2008			2007		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	923,276	61,979	985,255	871,684	87,720	959,404
Capital assets	0	553,330	553,330	3,112	537,620	540,732
<b>Total assets</b>	<b>923,276</b>	<b>615,309</b>	<b>1,538,585</b>	<b>874,796</b>	<b>625,340</b>	<b>1,500,136</b>
Long-term liabilities outstanding	10,330,726	0	10,330,726	10,398,525	0	10,398,525
Other liabilities	674,998	0	674,998	614,152	0	614,152
<b>Total liabilities</b>	<b>11,005,724</b>	<b>0</b>	<b>11,005,724</b>	<b>11,012,677</b>	<b>0</b>	<b>11,012,677</b>
Net assets:						
Invested in capital assets	0	553,330	553,330	3,112	537,620	540,732
Restricted for emergencies	635	0	635	453	0	453
Restricted for debt service	8,939	0	8,939	5,695	0	5,695
Unrestricted	(10,092,022)	61,979	(10,030,043)	(10,147,141)	87,720	(10,059,421)
<b>Total net assets</b>	<b>(10,082,448)</b>	<b>615,309</b>	<b>(9,467,139)</b>	<b>(10,137,881)</b>	<b>625,340</b>	<b>(9,512,541)</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 D*.

Cotton Ranch Metro District  
Management Discussion & Analysis  
December 31, 2008

***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 2008 and 2007.

	2008			2007		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>REVENUES:</b>						
Program revenues:						
Charges for services	0	63,776	63,776	0	56,150	56,150
Grants and contributions	1,553	(4,800)	(3,247)	1,452	15,696	17,148
General revenues:						
Taxes	585,150	0	585,150	415,820	0	415,820
Interest and other revenue	10,359	1,642	12,001	8,642	1,696	10,338
<b>Total revenues</b>	<b>597,062</b>	<b>60,618</b>	<b>657,680</b>	<b>425,914</b>	<b>73,542</b>	<b>499,456</b>
<b>EXPENSES:</b>						
General Government	71,669	0	71,669	129,288	0	129,288
Water Activity operations	0	70,649	70,649	0	65,197	65,197
Interest on General Long Term Debt	469,960	0	469,960	504,487	0	504,487
<b>Total expenses</b>	<b>541,629</b>	<b>70,649</b>	<b>612,278</b>	<b>633,775</b>	<b>65,197</b>	<b>698,972</b>
Increase in net assets before transfers	55,433	(10,031)	45,402	(207,861)	8,345	(199,516)
Transfers	0	0	0	25,000	(25,000)	0
<b>Increase (decrease) in net assets</b>	<b>55,433</b>	<b>(10,031)</b>	<b>45,402</b>	<b>(182,861)</b>	<b>(16,655)</b>	<b>(199,516)</b>
Net assets January 1	(10,137,881)	625,340	(9,512,541)	(9,955,020)	641,995	(9,313,025)
Net assets December 31	(10,082,448)	615,309	(9,467,139)	(10,137,881)	625,340	(9,512,541)

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 deficit in 2007, and at a profit in 2008. The 2007 deficit was primarily the result of the interest expense on the District's outstanding debt being greater than the District's property taxes that are used to pay the interest. 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 D* explains these provisions of the District's long-term debt obligations in greater detail.

Cotton Ranch Metro District  
Management Discussion & Analysis  
December 31, 2008

In 2008, the District debt service payments were greater than the amount of newly-accrued interest, which was recorded as a profit.

**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 revenue item 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.

The District experienced a small increase in fund balances for 2008, 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 actual revenues and other financing sources in the amount of \$37,174 had a positive variance of \$1,854, or 4.8 %, to the final budget expectations of \$39,028.

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

The District's final budgetary expenditures and other financing uses of \$32,676 were \$1,664 less than the final appropriated balance of \$34,340, which represents a positive variance of 4.8%.

**CAPITAL ASSETS**

At the end of 2008, the District had a total of \$0 invested in governmental activities capital assets and \$553,330 invested in business-type activities capital assets. The governmental activities capital assets were disposed during 2008. The minimal increase in business-type activities capital assets over 2007 is due to current year additions being slightly higher than current year depreciation. See *Note E, Capital Assets*.

Cotton Ranch Metro District  
Management Discussion & Analysis  
December 31, 2008

DEBT ADMINISTRATION

At December 31, 2008, the District had \$10,330,726 of long-term obligations outstanding. See *Note D, 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, 2008

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 45,904	\$ 48,649	\$ 94,553
Receivables			
Due from county treasurer	1,666	-	1,666
Property taxes receivable	624,152	-	624,152
Water fees receivable	-	7,250	7,250
Tap fees receivable	-	3,600	3,600
Other receivable	-	2,480	2,480
Prepaid expenses	9,005	-	9,005
Bond issue costs, net	242,549	-	242,549
Capital assets (net of accumulated depreciation)			
Non-potable water system, net	-	288,207	288,207
Water rights	-	265,123	265,123
<b>Total Assets</b>	<b>\$ 923,276</b>	<b>\$ 615,309</b>	<b>\$ 1,538,585</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable	\$ 20,647	\$ -	\$ 20,647
Accrued interest payable	30,199	-	30,199
Deferred revenue	624,152	-	624,152
Non-current liabilities, due within one year			
Bonds	265,000	-	265,000
Non-current liabilities			
Bonds	10,065,726	-	10,065,726
<b>Total Liabilities</b>	<b>11,005,724</b>	<b>-</b>	<b>11,005,724</b>
<b>Net Assets</b>			
Invested in capital assets	-	553,330	553,330
Restricted for emergencies	635	-	635
Restricted for debt service	8,939	-	8,939
Unrestricted	(10,092,022)	61,979	(10,030,043)
<b>Total Net Assets</b>	<b>(10,082,448)</b>	<b>615,309</b>	<b>(9,467,139)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 923,276</b>	<b>\$ 615,309</b>	<b>\$ 1,538,585</b>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2008

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	
Governmental activities:							
General government	\$ 71,669	\$ -	\$ 1,553	\$ -	\$ (70,116)		\$ (70,116)
Interest on long-term debt	469,960	-	-	-	(469,960)		(469,960)
Total governmental activities	<u>541,629</u>	<u>-</u>	<u>1,553</u>	<u>-</u>	<u>(540,076)</u>		<u>(540,076)</u>
Business-type activities:							
Irrigation	70,649	63,776	-	(4,800)		\$ (11,673)	(11,673)
Total business-type activities	<u>70,649</u>	<u>63,776</u>	<u>-</u>	<u>(4,800)</u>	<u>-</u>	<u>(11,673)</u>	<u>(11,673)</u>
Total	<u>\$ 612,278</u>	<u>\$ 63,776</u>	<u>\$ 1,553</u>	<u>\$ (4,800)</u>	<u>(540,076)</u>	<u>(11,673)</u>	<u>(551,749)</u>
General revenues:							
Property taxes					585,150	-	585,150
Interest earnings					10,359	1,642	12,001
Total general revenues					<u>595,509</u>	<u>1,642</u>	<u>597,151</u>
Change in net assets					55,433	(10,031)	45,402
Net assets - beginning					(10,137,881)	625,340	(9,512,541)
Net assets - ending					<u>\$ (10,082,448)</u>	<u>\$ 615,309</u>	<u>\$ (9,467,139)</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2008

	General	Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 38,573	\$ 7,331	\$ 45,904
Receivables			
Due from county treasurer	58	1,608	1,666
Property taxes receivable	21,475	602,677	624,152
Prepaid expenses	9,005	-	9,005
	<u>69,111</u>	<u>611,616</u>	<u>680,727</u>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities			
Accounts payable	\$ 20,647	\$ -	\$ 20,647
Deferred property taxes	21,475	602,677	624,152
Total Liabilities	<u>42,122</u>	<u>602,677</u>	<u>644,799</u>
Fund equity			
Reserved for emergencies	635	-	635
Unreserved	26,354	8,939	35,293
Total Fund Equity	<u>26,989</u>	<u>8,939</u>	<u>35,928</u>
	<u>\$ 69,111</u>	<u>\$ 611,616</u>	<u>\$ 680,727</u>

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, 2008

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

Total fund balance - governmental funds	\$ 35,928
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.	242,549
Long-term liabilities such as bonds are not due and payable in the current period and, therefore, are not reported in the funds.	(10,330,726)
Accrued interest and fees are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(30,199)</u>
Net Assets of Governmental Activities	<u>\$ (10,082,448)</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, 2008

	General	Debt Service	Total Governmental Funds
Revenues			
Taxes	\$ 20,488	\$ 564,662	\$ 585,150
Interest	669	9,690	10,359
Intergovernmental	1,553	-	1,553
Total revenues	<u>22,710</u>	<u>574,352</u>	<u>597,062</u>
Expenditures			
General government	32,676	16,302	48,978
Debt service			
Principal	-	150,000	150,000
Interest	-	388,192	388,192
Financial fees	-	2,150	2,150
Total expenditures	<u>32,676</u>	<u>556,644</u>	<u>589,320</u>
Excess of Revenues Over (Under) Expenditures	(9,966)	17,708	7,742
Other financing sources (uses)			
Transfers in (out)	<u>14,464</u>	<u>(14,464)</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	4,498	3,244	7,742
Fund Balance - beginning	<u>22,491</u>	<u>5,695</u>	<u>28,186</u>
Fund Balance - ending	<u>\$ 26,989</u>	<u>\$ 8,939</u>	<u>\$ 35,928</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, 2008

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

Net Change in Fund Balances - Governmental Funds	\$ 7,742
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.	150,000
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.	(81,768)
The sale of capital assets are recorded in the funds at the amount of gross proceeds, but are recorded in the statement of activities at the book value net of the proceeds. This amount is the effect of the difference in the treatment of the sale proceeds.	(3,112)
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>\$ 55,433</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, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 19,654	\$ 19,654	\$ 19,528	\$ (126)
Specific ownership taxes	983	983	960	(23)
Intergovernmental	1,400	1,400	1,553	153
Interest earnings	333	333	669	336
Total revenues	<u>22,370</u>	<u>22,370</u>	<u>22,710</u>	<u>340</u>
Expenditures				
Accounting and auditing	42,750	42,750	46,726	(3,976)
Insurance	2,800	2,800	2,459	341
Legal	6,000	6,000	4,204	1,796
Treasurer's fees	590	590	592	(2)
Repair and maintenance	-	-	4,396	(4,396)
Other	6,540	6,540	2,879	3,661
Allocation of overhead	(34,340)	(34,340)	(28,580)	(5,760)
Contingency	10,000	10,000	-	10,000
Total expenditures	<u>34,340</u>	<u>34,340</u>	<u>32,676</u>	<u>1,664</u>
Excess of Revenues Over (Under) Expenditures	(11,970)	(11,970)	(9,966)	2,004
Other financing sources				
Transfers in	<u>16,658</u>	<u>16,658</u>	<u>14,464</u>	<u>(2,194)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	4,688	4,688	4,498	(190)
Fund Balance - beginning	<u>22,181</u>	<u>22,181</u>	<u>22,491</u>	<u>310</u>
Fund Balance - ending	<u><u>\$ 26,869</u></u>	<u><u>\$ 26,869</u></u>	<u><u>\$ 26,989</u></u>	<u><u>\$ 120</u></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, 2008

	Business-type Activities- Irrigation Enterprise Fund
Revenues	
Water service fees	\$ 63,776
Total revenues	63,776
Expenses	
Repairs and maintenance	30,264
Depreciation	10,285
Augmentation water contract and lease	1,520
Allocation of overhead	28,580
Total expenses	70,649
Operating income (loss)	(6,873)
Non-operating revenues (expenses)	
Investment earnings	1,642
Total non-operating revenues (expenses)	1,642
Income (loss) before contributions and transfers	(5,231)
Capital contributions - tap fees	21,600
Repayment of tap fees	(26,400)
Change in net assets	(10,031)
Total net assets - beginning	625,340
Total net assets - ending	\$ 615,309

The accompanying notes are an integral part of this statement.



Cotton Ranch Metropolitan District

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND

Year ended December 31, 2008

	Business-type Activities- Irrigation Enterprise Fund
Cash flows from operating activities	
Cash received from customers and users	\$ 55,708
Cash paid to suppliers	(60,364)
Net cash provided (used) by operating activities	<u>(4,656)</u>
Cash flows from capital and related financing activities	
Capitalized legal costs	(9,418)
Purchase of capital assets	(16,577)
Tap fees received (refunded)	(4,800)
Net cash provided (used) by capital and related financing activities	<u>(30,795)</u>
Cash flows from investing activities	
Investment income received	1,642
Net cash provided (used) by investing activities	<u>1,642</u>
Net increase (decrease) in cash	(33,809)
Cash - beginning	<u>82,458</u>
Cash - ending	<u>\$ 48,649</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (6,873)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	10,285
(Increase) decrease in accounts receivable	(8,068)
Total adjustments	<u>2,217</u>
Net cash provided (used) by operating activities	<u>\$ (4,656)</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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**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.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

Government-wide Financial Statements

In the government-wide Statement of Net Assets, the governmental activities columns are 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.

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 proprietary funds.

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.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

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.

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.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

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.

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.

Cotton Ranch Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

9. 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 2008 budget year, prior to August 23, 2007, the County Assessor sent the District the assessed valuation of all taxable property within the District's boundaries.
- (2) On or before October 15, 2007, 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 2008 budget, prior to December 15, 2007, 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 2008 budget, the final budget and appropriating resolution was adopted prior to December 31, 2007.
- (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.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

10. 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, 2008, the carrying amount of the District's deposits was \$4,936 and the bank balance was \$5,123. 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, 2008, the District had \$6,472 in a money market account to be used for debt service.

Cotton Ranch Metropolitan District  
 NOTES TO FINANCIAL STATEMENTS

December 31, 2008

**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 \$83,145 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, 2008 is as follows:

Deposits	\$ 11,408
Investments	<u>83,145</u>
Total equity in pooled cash and investments	<u>\$ 94,553</u>

**NOTE C – TRANSFERS**

The following is a summary of transfers in and out for all funds for 2008:

Fund	Transfer in	Transfer out
General Fund	\$ 14,464	\$ –
Debt Service Fund	<u>–</u>	<u>14,464</u>
Total	<u>\$ 14,464</u>	<u>\$ 14,464</u>

The transfers above were needed to pay expenses of the general fund.



Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

**NOTE D – LONG-TERM DEBT**

By Classification	Balance at January 1, 2008	<u>Additions</u>	<u>Payments</u>	Balance at December 31, 2008
2002A – \$3,485,000				
Subordinate Junior General Obligation Limited Tax Refunding Bonds	\$ 3,485,000	\$ –	\$ –	\$ 3,485,000
Unpaid interest	923,525	205,615	(123,414)	1,005,726
2006 – \$6,040,000 Refunding General Obligation Bonds	<u>5,990,000</u>	<u>–</u>	<u>(150,000)</u>	<u>5,840,000</u>
	<u>\$ 10,398,525</u>	<u>\$ 205,615</u>	<u>\$ (273,414)</u>	<u>\$ 10,330,726</u>

The detail of the District’s 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

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

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.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

The District was unable to pay interest on the Series 2002A bonds in the amount of \$82,201 during 2008. Such unpaid interest was recorded as an addition to non-current bonds payable and is payable whenever monies become available for payment.

**\$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>
2009	\$ —	\$ 207,358	\$ 207,358
2010	—	207,358	207,358
2011	—	207,358	207,358
2012	—	207,358	207,358
2013	—	207,358	207,358
2014-2018	—	1,036,790	1,036,790
2019-2023	90,000	1,036,790	1,126,790
2024-2028	775,000	934,747	1,709,747
2029-2033	1,640,000	608,686	2,248,686
2034-2035	980,000	88,953	1,068,953
Total	<u>\$ 3,485,000</u>	<u>\$ 4,742,756</u>	<u>\$ 8,227,756</u>

**General Obligation Refunding Bonds, Series 2006**

<u>Year</u>	\$6,040,000 General Obligation Refunding 2006		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 265,000	\$ 258,703	\$ 523,703
2010	330,000	247,837	577,837
2011	390,000	234,225	624,225
2012	420,000	218,040	638,040
2013	430,000	200,400	630,400
2014-2018	2,270,000	718,312	2,988,312
2019-2022	1,735,000	203,776	1,938,776
Total	<u>\$ 5,840,000</u>	<u>\$ 2,081,293</u>	<u>\$ 7,921,293</u>

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

**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. During the issuance of the 2006 general obligation refunding bonds the District's bond counsel advised the District that the voter authorization had been utilized as follows with remaining authorized but unissued indebtedness at December 31, 2008 of \$6,315,000 calculated as follows:

	Original Voter Authorization	Authorization Used For			Remaining Unused Authorization
		1998A Bonds	1999A & B 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
Total	<u>\$ 17,000,000</u>	<u>\$ (2,000,000)</u>	<u>\$ (7,000,000)</u>	<u>\$ (1,685,000)</u>	<u>\$ 6,315,000</u>

**NOTE E – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2008 follows:

	Balance at January 1, 2008	Additions	Deletions	Balance at December 31, 2008
<b>Governmental Activities</b>				
Capital assets being depreciated				
Vehicles	\$ 31,117	\$ –	\$ (31,117)	\$ –
Accumulated depreciation	(28,005)	–	28,005	–
Governmental activities capital assets, net	<u>\$ 3,112</u>	<u>\$ –</u>	<u>\$ (3,112)</u>	<u>\$ –</u>
<b>Business-type Activities</b>				
Capital assets not being depreciated				
Water rights	\$ 255,705	\$ 9,418	\$ –	\$ 265,123
Capital assets being depreciated				
Non-potable water system	364,915	16,577	–	381,492
Vehicles	5,230	–	–	5,230
Accumulated depreciation	(88,230)	(10,285)	–	(98,515)
Total capital assets being depreciated, net	<u>281,915</u>	<u>6,292</u>	<u>–</u>	<u>288,207</u>
Business-type activity capital assets, net	<u>\$ 537,620</u>	<u>\$ 15,710</u>	<u>\$ –</u>	<u>\$ 553,330</u>

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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**NOTE F – RELATED PARTY AND CONCENTRATIONS**

Cotton Ranch Company, LLC, was the Developer (referred to herein as the “Original Developer”) of Cotton Ranch from 1995 until December 4, 2003 at which time ASW Realty assumed all future development obligations within the District (referred to herein as the “Successor Developer”). Certain members of the Board of Directors are associated with the Original Developer within the District. The infrastructure construction within the District was managed by the Original Developer until December 2003, and has been managed by the Successor Developer since that date.

The Original Developer financed the cost of infrastructure construction and has been 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 Original Developer received \$3,500,000 in Series 1999B Subordinate General Obligation Limited Tax Bonds (refunded with 2003A Subordinate Junior General Obligation Limited Tax Refunding Bonds) and \$3,104,532 in cash. Reimbursement to the Original Developer included \$1,010,000 for construction management service fees.

A construction company owned by the Original Developer performed certain construction within the District prior to 1998 and was paid approximately \$2,225,000 through that date.

See Note G for additional costs incurred by the Original Developer, which have not been reimbursed.

The Cotton Ranch Club Inc., which is managed by the Original Developer, owns approximately 8.3% of the assessed property value within the District. Cotton Ranch Company, LLC owns approximately another 0.8% of the assessed value. As a result, approximately \$56,798 of the 2008 property tax revenue or 9.1% is attributable to land owned by the Original Developer.

Sky Legend LLC and Sky Legend II LLC are owned by the Successor Developer. Together, these two entities own approximately 11.9% of the assessed value. Therefore, approximately \$74,274 of the 2008 property tax revenue is attributable to land owned by the Successor Developer.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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**NOTE G – 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 there are no material outstanding claims against the District at December 31, 2008.

**Development Costs**

The District's development has been primarily financed by the Original Developer and Successor Developer. Certain costs incurred by the Original Developer and the Successor Developer have not been reimbursed by the District. The Original Developer expects to be reimbursed sometime in the future by the District as financing becomes available. The District has no legal obligation to reimburse the Original Developer for these costs, and the District has therefore not recorded a liability for these costs.

On December 4, 2003, the District entered into an Improvement Acquisition Agreement with the Successor Developer, who intends to develop 247 units in the District. Pursuant to this Improvement Acquisition Agreement, the District has agreed to issue additional limited tax general obligation bonds in the aggregate amount of \$5,500,000 as the developer completes construction of certain infrastructure improvements.

Costs claimed by the Original Developer through December 31, 2008, not yet verified nor reimbursed by the District, are purported to be approximately \$2,700,000. These costs include approximately \$2,370,000 for construction and construction management services performed by the Developer's construction company and the Developer, respectively (see Note F).

**NOTE H – PREPAID TAP FEE AGREEMENTS**

The District and Cotton Ranch Company LLC (the Original Developer) entered into a Prepaid Tap Fee Agreement dated December 31, 2000. Under the agreement, the District may request the Original Developer (subject to agreement by the Original Developer) to purchase taps, at the then current rate, to assist the District in meeting its financial obligations. The Original Developer has no obligation to purchase taps. If the Original Developer agrees to purchase taps as requested, the Original Developer may: a) designate the taps as appurtenant to specific lots in the District owned by the Original Developer; or b) hold such taps for subsequent resale or designation; or c) resell the taps at the price paid to the District by the Original Developer. Pursuant to this agreement, the Original Developer advanced a total of \$54,500 to the District through December 31, 2001 and no additional funds have been advanced by the Original Developer to the District after 2001. The funds advanced in 2001 by the Original Developer entitled the Original Developer to 30.28 irrigation water taps. In 2007, the District repaid \$34,704 for 19.28 prepaid taps at the 2001 rate of \$1,800 each, which left the Original Developer entitled to 11 irrigation water taps. In 2008, the District repaid the remaining 11 prepaid irrigation water taps at \$2,400 each, for a repayment total of \$26,400.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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**NOTE H – PREPAID TAP FEE AGREEMENTS – CONTINUED**

The District and Sky Legend, the Successor Developer, entered into a Prepaid Tap Fee Agreement dated December 1, 2004, which was later amended effective December 12, 2005. Under the Sky Legend 2004 Agreement and 2005 amendment, Sky Legend purchased five prepaid taps from the District in 2004, thirty-five prepaid taps in 2005, and twenty prepaid taps in 2006. Each tap has a purchase price of \$2,400 totaling \$12,000 in 2004, \$84,000 in 2005, and \$48,000 in 2006.

**NOTE I – 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, 2008 the Pool made no distributions to the District.

Condensed financial statement data for the Colorado Special Districts Property and Liability Pool as of December 31, 2007 (the most recent information available) is as follows:

	Colorado Special Districts Property and Liability Pool
Assets	<u>\$ 22,490,574</u>
Liabilities	\$ 8,909,387
Net Assets	<u>13,581,187</u> <u>\$ 22,490,574</u>
Revenue	\$ 9,471,939
Investment Income and Other	737,739
Total Revenue	<u>10,209,678</u>
Expenses	<u>8,529,324</u>
Excess of Revenues Over Expenses	<u>\$ 1,680,354</u>

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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**NOTE J – 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, 2008, the District had the required 3% reserve of \$635, reserved for emergencies.

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, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 541,667	\$ 541,667	\$ 538,192	\$ (3,475)
Specific ownership taxes	27,083	27,083	26,470	(613)
Interest income	8,125	8,125	9,690	1,565
Total revenues	<u>576,875</u>	<u>576,875</u>	<u>574,352</u>	<u>(2,523)</u>
<b>Expenditures</b>				
Treasurer's fees	16,250	16,250	16,302	(52)
Principal reduction	150,000	150,000	150,000	-
Interest	391,672	391,672	388,192	3,480
Other - Paying Agent Fees	2,300	2,300	2,150	150
Total expenditures	<u>560,222</u>	<u>560,222</u>	<u>556,644</u>	<u>3,578</u>
Excess of Revenues Over (Under) Expenditures	16,653	16,653	17,708	1,055
<b>Other financing sources (uses)</b>				
Transfer out	(16,658)	(16,658)	(14,464)	2,194
Total other financing sources (uses)	<u>(16,658)</u>	<u>(16,658)</u>	<u>(14,464)</u>	<u>2,194</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(5)	(5)	3,244	3,249
Fund Balance - beginning	<u>69,829</u>	<u>69,829</u>	<u>5,695</u>	<u>(64,134)</u>
Fund Balance - ending	<u>\$ 69,824</u>	<u>\$ 69,824</u>	<u>\$ 8,939</u>	<u>\$ (60,885)</u>

Cotton Ranch Metropolitan District

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

Year ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Water service fees	\$ 50,000	\$ 50,000	\$ 63,776	\$ 13,776
Investment earnings	2,295	2,295	1,642	(653)
Tap fees	57,600	57,600	21,600	(36,000)
Repayment of tap fees	(26,400)	(26,400)	(26,400)	-
Total revenues	<u>83,495</u>	<u>83,495</u>	<u>60,618</u>	<u>(22,877)</u>
<b>Expenses</b>				
Repairs and maintenance	94,010	94,010	30,264	63,746
Augmentation water contract and lease	1,636	1,636	1,520	116
Legal and professional expense	10,000	10,000	9,418	582
Allocation of overhead	34,340	34,340	28,580	5,760
Capital outlay	-	-	16,577	(16,577)
Total expenses	<u>139,986</u>	<u>139,986</u>	<u>86,359</u>	<u>53,627</u>
Change in net assets budgetary basis	<u>\$ (56,491)</u>	<u>\$ (56,491)</u>	<u>(25,741)</u>	<u>\$ 30,750</u>
<b>Reconciliation to GAAP basis</b>				
Capitalized capital outlay and legal expense			25,995	
Depreciation			<u>(10,285)</u>	
Change in net assets GAAP basis			(10,031)	
Total net assets - beginning			<u>625,340</u>	
Total net assets - ending			<u>\$ 615,309</u>	

Cotton Ranch Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAX COLLECTIONS

December 31, 2008

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Property Taxes		Percent Collected to Levied
			Levied	Collected	
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		

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.