

Cornerstone Metropolitan District No. 1

Annual Financial Report

December 31, 2009

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Report of Independent Certified Public Accountants

To the Board of Directors
Cornerstone Metropolitan District No. 1

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the major funds of Cornerstone Metropolitan District No. 1 as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major funds of Cornerstone Metropolitan District No. 1 as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the 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 in Section II and Statements of Revenue, Expenditures, and Changes in Fund Balance – Actual and Budget for Debt Service, Capital Projects, and Enterprise Funds are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the District's basic financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the District's basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the District's basic financial statements taken as a whole.

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Littleton, Colorado
April 27, 2010



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Cornerstone Metropolitan District No. 1 Management's Discussion and Analysis December 31, 2009

As management of Cornerstone Metropolitan District No.1 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2009.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

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

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements

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

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2009**

Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental funds financial statements are located on pages 3 through 5 of this report.

Proprietary funds

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the business-type services provided by the District, each of which is considered to be a major fund of the District.

The basic proprietary fund financial statements can be found on pages 7 through 8 of this report. The District also presents a budgetary comparison for its proprietary funds on page 26.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 9 – 23 of this report.

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2009**

Government-wide Financial Analysis

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

Cornerstone Metropolitan District No.1's Net Assets

	Governmental		Business-type		Total	Total
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Assets:						
Current assets	1,814,052	1,955,201	67,756	146,613	1,881,808	2,101,814
Capital and other non-current assets	27,682,767	20,180,774	14,458,004	9,615,312	42,140,771	29,796,086
Total Assets	29,496,819	22,135,975	14,525,760	9,761,925	44,022,579	31,897,900
Liabilities:						
Current liabilities	98,017	61,725	-	-	98,017	61,725
Long-term and other non-current liabilities	28,216,628	21,206,305	45,059	-	28,261,687	21,206,305
Total Liabilities	28,314,645	21,268,030	45,059	-	28,359,704	21,268,030
Net Assets:						
Invested in fixed assets, net of related debt	1,182,174	867,945	14,480,701	9,761,925	15,662,875	10,629,870
Restricted for emergencies	5,094	4,035	-	-	5,094	4,035
Unrestricted	(5,094)	(4,035)	-	-	(5,094)	(4,035)
Total Net Assets	1,182,174	867,945	14,480,701	9,761,925	15,662,875	10,629,870

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

	Governmental		Business-type		Total	Total
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	-	-	248,363	192,047	248,363	192,047
Operating grants and contributions	590,796	978,650	-	-	590,796	978,650
Capital grants and contributions	9,190,216	326,611	123,916	1,209,375	9,314,132	1,535,986
General revenues:						
Interest and other revenue	9,183	55,535	2,099	2,099	11,282	57,634
Total Revenues	9,790,195	1,360,796	374,378	1,403,521	10,164,573	2,764,317
Expenses:						
General government	69,376	80,649	-	-	69,376	80,649
Public works	107,468	92,864	-	-	107,468	92,864
Public Safety	13,525	-	-	-	13,525	-
Intergovernmental agreement	-	1,236,505	92,707	92,707	92,707	1,329,212
Conveyance of capital assets	3,637,280	5,042,882	-	-	3,637,280	5,042,882
Interest on long-term debt	418,599	805,291	-	-	418,599	805,291
Water and Sewer	-	-	739,154	739,154	739,154	739,154
Total Expenses	4,246,248	7,258,191	831,861	831,861	5,078,109	8,090,052
Change in Net Assets						
before Transfers	5,543,947	(5,897,395)	(457,483)	571,660	5,086,464	(5,325,735)
Capital transfers	(5,229,718)	(10,098,543)	5,229,718	10,098,543	-	-
Operating transfers	-	908,278	-	(908,278)	-	-
Change in Net Assets	314,229	(15,087,660)	4,772,235	9,761,925	5,086,464	(5,325,735)
Net Assets - Beginning	867,945	15,955,605	-	-	867,945	15,955,605
Net Asset - Ending	1,182,174	867,945	4,772,235	9,761,925	5,954,409	10,629,870

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2009**

The District is the “service district” in a dual district structure whereby the District has and will continue to construct and operate the infrastructure for the Cornerstone subdivision. The District has entered into a District Facilities Construction and Service Agreement with Cornerstone Metropolitan District No. 2. Under the agreement, District No. 1 (the “Operating District”) is responsible for managing the construction of all facilities and improvements and for the operation and maintenance of all improvements not conveyed to another public entity. District No. 2 (the “Taxing District”) is responsible for providing the funding for all infrastructure improvements and the revenue needed to support the ongoing operation and maintenance of the improvements and public facilities. Cornerstone Metropolitan District No.2 will ultimately pay off the “capital obligation” for construction costs as well as the “service obligation” for the excess costs of operating and maintaining the facilities. The District will use the funds received from Cornerstone Metropolitan District No. 2 to pay off the District’s debt.

The District’s overall financial position, as measured by net assets, increased by a total of \$5,033,005, which is due to capital additions being greater than deletions and depreciation expense. The District’s revenues consisted primarily of intergovernmental agreement revenues received from District No. 2 as well as accrued service and capital obligations for funding shortfalls. The primary expenses of the District are interest on the District’s debt and operating and depreciation costs related to the District’s infrastructure.

Financial Analysis of the District’s Funds

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

Governmental funds

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

As of the end of the current fiscal year, the District’s governmental funds reported a combined ending fund balance of \$1,784,278. Of this fund balance, \$11,425 of this is nonspendable, \$5,094 is restricted for emergencies, and \$1,770,054 is assigned for debt service, meaning it is not available for new spending because it has already been committed. The remainder of the combined fund balance, which is a small negative balance of (\$2,295), is unassigned, meaning that is available for spending at the District’s discretion.

Proprietary funds

The District’s proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2009**

As of the end of the current fiscal year, the District's proprietary fund reported ending net assets of \$14,480,701, all of which is shown as Invested in Capital Assets, Net of Related Debt. The reason for this is that like the Governmental Activities, all increases and decreases from the District's operations are recorded as being due from or to Cornerstone Metropolitan District No. 2.

Budget variances

The District was not required to amend its 2009 budget. Details of the budgets can be seen on pages 6, 24, and 25 of this report for governmental funds and page 26 for the Water and Sewer Fund.

Capital assets

The District's investment in capital assets government-wide, net of accumulated depreciation increased by \$5,033,005 as a result of current year capital additions being greater than depreciation expense and transfers of assets to other governments.. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statements on pages 16 of this report.

Long-term debts

The District's long-term debts increased by \$9,237,063 during the year due to purchases of infrastructure by the District from the developer which were added to the amounts owed back to the developer. Additional information can be found in the Notes to the Financial Statements on page 17 of this report.

Request for Information

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

Basic Financial Statements

Cornerstone Metropolitan District No. 1
Statement of Net Assets
December 31, 2009

Assets	Governmental Activities	Business- Type Activities	Total
Investments in pooled cash - unrestricted	31,837	\$ 36,704	\$ 68,541
Investments in pooled cash - restricted	1,768,739	-	1,768,739
Intergovernmental receivable	2,051	-	2,051
Accounts receivable	-	31,052	31,052
Prepaid expenses	11,425	-	11,425
Bond issue costs, net of amortization	299,012	-	299,012
Long-term service obligation receivable due from Cornerstone Metro Dist. No. 2	3,757,321	(22,697)	3,734,624
Long-term capital obligation receivable due from Cornerstone Metro Dist. No. 2	22,444,260	-	22,444,260
Capital assets, net of depreciation:			-
Water and sewer infrastructure	-	14,480,701	14,480,701
Roads	1,182,174	-	1,182,174
Total assets	<u>29,496,819</u>	<u>14,525,760</u>	<u>44,022,579</u>
Liabilities			
Accounts payable	29,774	-	29,774
Accrued interest payable	14,175	59	14,234
Accrued letter of credit fees	68,243	-	68,243
Developer advance payable - general operations	194,823	-	194,823
Developer advance payable - water operations	-	45,000	45,000
Developer advance payable - capital	6,887,630	-	6,887,630
Bonds payable	21,120,000	-	21,120,000
Total liabilities	<u>28,314,645</u>	<u>45,059</u>	<u>28,359,704</u>
Net Assets			
Invested in capital assets, net of related debt	1,182,174	14,480,701	15,662,875
Restricted for:			
Emergencies	5,094	-	5,094
Unrestricted	(5,094)	-	(5,094)
Total Net Assets	<u>1,182,174</u>	<u>14,480,701</u>	<u>15,662,875</u>
Total Liabilities and Net Assets	<u>\$ 29,496,819</u>	<u>\$14,525,760</u>	<u>\$ 44,022,579</u>

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

Cornerstone Metropolitan District No. 1
Statement of Activities
For the Year Ended December 31, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 69,376	\$ -	\$ -	\$ -	\$ (69,376)	\$ -	\$ (69,376)
Public works	107,468	-	-	-	(107,468)	-	(107,468)
Public safety	13,525	-	-	-	(13,525)	-	(13,525)
Intergovernmental agreement	-	-	590,796	9,190,216	9,781,012	-	9,781,012
Conveyance of capital assets	3,637,280	-	-	-	(3,637,280)	-	(3,637,280)
Interest and related costs on long term debt	418,599	-	-	-	(418,599)	-	(418,599)
	<u>4,246,248</u>	<u>-</u>	<u>590,796</u>	<u>9,190,216</u>	<u>5,534,764</u>	<u>-</u>	<u>5,534,764</u>
Business-type activities							
Water and sewer	883,582	248,363	-	-	-	(635,219)	(635,219)
Intergovernmental agreement	-	-	123,916	-	-	123,916	123,916
	<u>883,582</u>	<u>248,363</u>	<u>123,916</u>	<u>-</u>	<u>-</u>	<u>(511,303)</u>	<u>(511,303)</u>
General revenues:							
Investment income					9,183	361	\$ 9,544
Transfer of capital assets					(5,229,718)	5,229,718	-
Total general revenues and transfers					<u>(5,220,535)</u>	<u>5,230,079</u>	<u>9,544</u>
Change in net assets					314,229	4,718,776	5,033,005
Net assets - beginning of year					867,945	9,761,925	10,629,870
Net assets - end of year					<u>\$ 1,182,174</u>	<u>\$ 14,480,701</u>	<u>\$ 15,662,875</u>

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

Cornerstone Metropolitan District No. 1
Governmental Funds Balance Sheet
and Reconciliation of Fund Balances to Net Assets
December 31, 2009

Assets	General Fund	Debt Service Fund	Capital Projects	Total
Investments in pooled cash - unrestricted	\$ 31,837	\$ -	\$ -	\$ 31,837
Investments in pooled cash - restricted	-	1,768,739	-	1,768,739
Intergovernmental receivable	736	1,315	-	2,051
Prepaid expense	11,425	-	-	11,425
Total assets	<u>\$ 43,998</u>	<u>\$ 1,770,054</u>	<u>\$ -</u>	<u>\$ 1,814,052</u>
Liabilities				
Accounts payable	29,774	-	-	29,774
Total liabilities	<u>29,774</u>	<u>-</u>	<u>-</u>	<u>29,774</u>
Fund Balances				
Non-spendable	11,425	-	-	11,425
Restricted for emergencies	5,094	-	-	5,094
Assigned for debt service	-	1,770,054	-	1,770,054
Unassigned	(2,295)	-	-	(2,295)
Total Fund Balances	<u>14,224</u>	<u>1,770,054</u>	<u>-</u>	<u>1,784,278</u>
Total Liabilities and Fund Balance	<u>\$ 43,998</u>	<u>\$ 1,770,054</u>	<u>\$ -</u>	<u>\$ 1,814,052</u>

Total governmental fund balance per above \$ 1,784,278

Amounts reported for governmental activities in the statement of net assets excluded from the governmental fund balance because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and are excluded from the funds. 1,182,174

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

 Capital and service obligations due from Cornerstone Metro Dist. No. 2 26,201,581
 Bond issue costs, net of amortization 299,012

Long term liabilities not payable in the current year are excluded as liabilities in the governmental funds. Interest on long-term debt is recognized as an expenditure in governmental funds when due. These liabilities consist of:

 Bonds payable (21,120,000)
 Developer advance payable - general operations (194,823)
 Developer advance payable - capital (6,887,630)
 Accrued interest payable (14,175)
 Accrued letter of credit fees (68,243)

Net assets of governmental activities \$ 1,182,174

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

Cornerstone Metropolitan District No. 1
Governmental Fund Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended December 31, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:				
Investment income	\$ 146	\$ 9,025	12	\$ 9,183
Intergovernmental revenue - Cornerstone No. 2	<u>169,638</u>	<u>302,925</u>	-	<u>472,563</u>
Total General Revenues	<u>169,784</u>	<u>311,950</u>	<u>12</u>	<u>481,746</u>
Expenses:				
General government				
Accounting and audit	71,448	-	-	71,448
Dues and subscriptions	1,222	-	-	1,222
Insurance and bonds	7,670	-	-	7,670
Legal and professional fees	34,539	-	-	34,539
Other expenses	1,723	-	-	1,723
Allocated overhead	(58,301)	-	-	(58,301)
Public safety	13,525	-	-	13,525
Public works				
Road repairs and maintenance	95,976	-	-	95,976
Debt service				
Letter of credit fees	-	270,747	-	270,747
Bond interest	-	100,459	-	100,459
Paying agent and other fees	-	9,040	-	9,040
Remarketing agent fees	-	42,240	-	42,240
Capital outlay	-	-	<u>9,192,719</u>	<u>9,192,719</u>
Total Expenditures	<u>167,802</u>	<u>422,486</u>	<u>9,192,719</u>	<u>9,783,007</u>
Excess (Deficiency) of Revenues over expenditures	1,982	(110,536)	(9,192,707)	(9,301,261)
Other financing sources/uses:				
Developer advance - Capital	-	-	9,192,063	9,192,063
Transfers—internal activities	<u>3,728</u>	-	<u>(3,728)</u>	<u>-</u>
	<u>3,728</u>	-	<u>9,188,335</u>	<u>9,192,063</u>
Net change in fund balance	5,710	(110,536)	(4,372)	(109,198)
Fund balances:				
Beginning of the year	<u>8,514</u>	<u>1,880,590</u>	<u>4,372</u>	<u>1,893,476</u>
End of the year	<u>\$ 14,224</u>	<u>\$ 1,770,054</u>	<u>\$ -</u>	<u>\$ 1,784,278</u>

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

Cornerstone Metropolitan District No. 1
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2009

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

Net change in fund balance—total governmental funds	\$ (109,198)
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Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure; however, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. In addition, in the Statement of Activities, conveyance of assets to the Water and Sewer Fund or other governmental entities is reported as an expense.

Asset conveyance - Proprietary Fund	(5,229,718)
Asset conveyance - Other governments	(3,637,280)
Capital outlays	9,192,063
Depreciation	(10,836)

Long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Developer advances received	(9,192,063)
Change in accrued interest on long-term debt	3,887
Amortization of bond issuance costs	(11,075)

Capital and service obligations reported in the Statement of Activities do not provide or consume current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds.

9,308,449

Change in net assets of governmental activities	<u>\$ 314,229</u>
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The accompanying notes are an integral part of these financial statements.

Cornerstone Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—General Fund
For the Year Ended December 31, 2009

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Investment income	\$ 3,434	\$ 146	\$ (3,288)
Intergovernmental revenue - Cornerstone No. 2	170,883	169,638	(1,245)
Total revenue	174,317	169,784	(4,533)
Expenditures:			
General government			
Accounting and audit	89,500	71,448	18,052
Management fees	90,000	-	90,000
Dues and subscriptions	2,000	1,222	778
Insurance and bonds	10,000	7,670	2,330
Legal and professional fees	40,000	34,539	5,461
Other expenses	500	1,723	(1,223)
Allocated overhead	(136,000)	(58,301)	(77,699)
Contingency	10,000	-	10,000
Public safety			
Fire and emergency medical	21,000	12,460	8,540
Public safety operations	176,922	1,065	175,857
Public works			
Repairs and maintenance	282,200	95,976	186,224
Total Expenditures	586,122	167,802	418,320
Excess revenue over (under) expenditures	(411,805)	1,982	413,787
Other financing sources (uses):			
Developer advance	450,000	-	(450,000)
Transfers—internal activities	-	3,728	3,728
	450,000	3,728	(446,272)
Net change	38,195	5,710	(32,485)
Fund Balance—Beginning of year	29,029	8,514	(20,515)
Fund Balance—End of Year	\$ 67,224	\$ 14,224	\$ (53,000)

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

Cornerstone Metropolitan District No. 1
Statement of Revenue, Expenses and Changes in Net Assets
Proprietary Fund Type—Water and Sewer Enterprise Fund
For the Year Ended December 31, 2009

Operating Revenues	
Water use fees	\$ 240,198
Sewer use fees	7,020
Interest and late fees	1,145
Total operating revenues	248,363
Operating Expenses	
Water operating expenses	277,705
Sewer operating expenses	36,575
Allocated overhead from General Fund	58,301
Depreciation expense	510,942
Total operating expenses	883,523
Net Operating (Loss)	(635,160)
Non-Operating Revenues (Expenses)	
Transfer of assets from governmental activities	5,229,718
Investment income	361
Interest expense	(59)
Change in net capital and service obligation due from Cornerstone Metro Dist. No. 2	123,916
Total Non-Operating Revenues (Expenses)	5,353,936
Change in Net Assets	4,718,776
Net Assets—Beginning of Year	9,761,925
Net Assets—End of Year	\$ 14,480,701

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

Cornerstone Metropolitan District No. 1
Statement of Cash Flows
Proprietary Fund Type—Water and Sewer Enterprise Fund
For the Year Ended December 31, 2009

Cash Flows from Operating Activities	
Cash received from customers	\$ 248,270
Cash paid to suppliers for goods and services	(314,280)
Cash paid to General Fund for allocated overhead	<u>(58,301)</u>
Net cash (used in) operating activities	<u>(124,311)</u>
Cash Flows from Investing Activities	
Investment income	<u>361</u>
Net cash provided by investing activities	<u>361</u>
Cash Flows from Non-Capital Financing Activities	
Developer advances	<u>45,000</u>
Net cash provided by capital and related financing activities	<u>45,000</u>
Net Decrease in Cash and Cash Equivalents	(78,950)
Cash and Cash Equivalents—Beginning of Year	<u>115,654</u>
Cash and Cash Equivalents—End of Year	<u>\$ 36,704</u>
Reconciliation of Net Operating Loss to	
Net Cash From Operating Activities:	
Net Operating Loss	\$ (635,160)
Adjustments to Reconcile Net Operating Loss to Net	
Cash Used by Operating Activities:	
Depreciation	510,942
Changes in Assets and Liabilities:	
(Increase) decrease in accounts receivable	<u>(93)</u>
Total Adjustments	<u>510,849</u>
Net Cash (Used in) Operating Activities	<u>\$ (124,311)</u>
Non-cash investing, capital and financing transactions:	
Change in service and capital obligations	123,916
Transfer of capital assets from governmental funds	5,229,718
Accrued interest on long-term debt	59

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

Cornerstone Metropolitan District No. 1

Notes to Financial Statements

December 31, 2009

1. Definition of Reporting Entity

Cornerstone Metropolitan District No. 1 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized concurrently with Cornerstone Metropolitan District No. 2 (collectively the Districts) by District Court Order on November 15, 2004, as amended December 22, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32). The Districts' service area is located in both Montrose County and in Ouray County. The Districts operate under a Consolidated Service Plan to provide financing for the design, acquisition, construction and installation of essential public purpose facilities including streets, water, storm drainage, sanitary sewer, parks and recreation, transportation, television relay, mosquito control and fire protection, and the operation and maintenance of the Districts. Under the Service Plan, the District is intended to be the Operating District related to Cornerstone Metropolitan District No. 2, the Taxing District.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District has no employees and contracts for all of its management and professional services.

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

2. Summary of Significant Accounting Policies

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

Government-wide and Fund Financial Statements

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

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

2. Summary of Significant Accounting Policies (continued)

Governmental activities are normally supported by property taxes collected by District No. 2 and transferred to the District. Both statements distinguish between governmental activities, which normally are supported by taxes and business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

2. Summary of Significant Accounting Policies (continued)

susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation paid.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

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

The Proprietary Fund accounts for operations that are 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.

The government reports the following major proprietary funds:

The Water & Sewer Enterprise Fund accounts for the operation and maintenance of the communities' water and sewer systems.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

2. Summary of Significant Accounting Policies (continued)

for proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

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

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund presented on the modified accrual basis of accounting.

Capital Assets

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

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

Roads	30 years
Water infrastructure	30 years
Sewer infrastructure	30 years

Bond Issue Costs

In the government-wide financial statements, bond issuance costs are reported as deferred charges and amortized over the term of related debt.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

2. Summary of Significant Accounting Policies (continued)

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are legally segregated or are not subject to future appropriation. Assignments of fund balances indicate the Board of Director's intention for future utilization of such funds and are subject to change by management.

The District considers all unassigned fund balances to be "reserves" for future operations or capital replacement as defined within Article X, Section 20 of the Constitution of the State of Colorado (see Note 11).

Fund Balance Classifications

The total fund balance of the governmental funds was \$1,784,278 as of December 31, 2009. Of this balance, \$11,425 was non-spendable since it had already been used to pre-pay expenses of 2010, \$5,094 was restricted for emergencies, as required by TABOR and \$1,770,054 was assigned for the payment of future debt service principal, interest and related costs. The remaining negative balance of \$2,295 is unassigned.

3. Cash and Investments

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

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Funds on hand in the Debt Service Fund are assigned for future debt service.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

3. Cash and Investments (continued)

The District had cash deposits of \$303,766 as of December 31, 2009, all of which was FDIC insured.

Investments

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

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

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

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

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

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

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

3. Cash and Investments (continued)

As of December 31, 2009, the District had the following investments:

Investment	Maturity	<u>Fair Value</u>
	Weighted average	
Colorado Surplus Asset Trust Fund (CSAFE)	under 60 days	<u>\$ 1,533,514</u>

CSAFE

During 2009, the District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by State statutes for local government entities to pool surplus funds. The State Securities Commission administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank serves as custodian for CSAFE's investment portfolio and services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. As of December 31, 2009, the District had \$1,533,514 invested in CSAFE. In February 2009 Standard & Poor's placed CSAFE on a watch due to a restriction placed on funds by the Reserve Fund, one of CSAFE's holdings. This watch was in place as of December 31, 2009, but was subsequently released in February 2010 and CSAFE was given a AAAM rating.

Cash and investments as of December 31, 2009 are classified in the accompanying financial statements as follows:

	<u>2009</u>
Equity in Pooled Cash - Unrestricted	\$ 303,766
Equity in Pooled Cash - Restricted	<u>1,533,514</u>
	<u>\$ 1,837,280</u>

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

4. Capital Assets

An analysis of the changes in net capital asset during 2009 follows:

	Balance December 31, 2008	Additions	Retirements/ Transfers	Balance December 31, 2009
Governmental Activities:				
Capital assets, depreciable:				
Roads	\$ 897,874	\$ 3,962,344	\$ (3,637,279)	\$ 1,222,939
Accumulated depreciation	(29,929)	(40,765)	29,929	(40,765)
Business-Type Activities:				
Capital assets, depreciable:				-
Water and Sewer	10,098,543	5,229,718	-	15,328,261
Accumulated depreciation	<u>(336,618)</u>	<u>(510,942)</u>	<u>-</u>	<u>(847,560)</u>
Total depreciable capital assets, net	<u>\$10,629,870</u>	<u>\$ 8,640,355</u>	<u>\$ (3,607,350)</u>	<u>\$15,662,875</u>

Depreciation expense charged in 2009 to the governmental enterprise functions of the District were \$40,765 and \$510,942, respectively.

5. Long-Term Capital and Service Obligations Receivable

Cornerstone Metropolitan District No. 2 is obligated under the Master Intergovernmental agreement between the Districts to provide funding for all public infrastructure improvements (capital obligation) to provide the revenue needed to support the ongoing operation and maintenance of the improvements and public facilities (service obligation). These items represent the portion of the obligations not yet reimbursed by Cornerstone Metropolitan District No. 2 as of December 31, 2009.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

6. Long-Term Liabilities

The following is an analysis of changes in the District's long-term debt for the year ended December 31, 2009:

	Balance December 31, 2008	Additions	Payments	Balance December 31, 2009	Due Within One Year
Series 2006, \$21,120,000					
Revenue Bonds	\$ 21,120,000	\$ -	\$ -	\$ 21,120,000	\$ -
Developer advance					
- General fund operations	194,823	-	-	194,823	-
- Water and sewer fund operations	-	45,000	-	45,000	-
- Capital	<u>(2,304,433)</u>	<u>9,192,063</u>	<u>-</u>	<u>6,887,630</u>	<u>-</u>
	<u>\$ 19,010,390</u>	<u>\$ 9,237,063</u>	<u>\$ -</u>	<u>\$ 28,247,453</u>	<u>\$ -</u>

The detail of the District's long-term debt outstanding at December 31, 2009 is as follows:

Series 2006

On April 27, 2006, the District issued \$21,120,000 in Variable Rate Revenue bonds (the Bonds) with a variable rate of interest determined weekly by the remarketing agent payable on the first business day of the following month. The Bonds are payable from net pledged revenues, including ad valorem property taxes, specific ownership taxes and development fees, that are received by Cornerstone Metropolitan District No. 2 and remitted to the District. Pursuant to a Taxing Resolution, Cornerstone Metropolitan District No. 2 has agreed to impose a mill levy sufficient to provide for payment on the Bonds and in no event is the mill levy to be less than 25.000 mills. For 2009, Cornerstone Metropolitan District No. 2 levied 39.000 mills, of which 25.000 mills was for debt service. The Bonds are subject to redemption prior to maturity at the option of the District, on the first day of any calendar month, without premium.

The Bonds are paid from an irrevocable direct pay letter of credit issued by the Bank of America, N.A. which expires on May 10, 2011 unless otherwise extended. The letter of credit fees are paid quarterly at an annual rate of 1.25%. The letter of credit is secured by the Developer and Hunt Realty Corporation which are jointly responsible for any draws and reimbursements on the letter of credit.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

6. Long-Term Liabilities (continued)

Annual interest payments will be calculated based on a variable rate and continue to be paid until the remaining principal is paid in full. Any outstanding principal will be due in full in 2036. Future estimated principal and interest payments are as follows, based on an estimated historical average interest rate of approximately 2.4%:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ 503,356	\$ 503,356
2011	-	503,356	503,356
2012	-	503,356	503,356
2013	-	503,356	503,356
2014	-	503,356	503,356
2015-2019	-	2,516,780	2,516,780
2020-2024	-	2,516,780	2,516,780
2025-2029	-	2,516,780	2,516,780
2030-2034	-	2,516,780	2,516,780
2035-2038	<u>21,120,000</u>	<u>1,006,712</u>	<u>22,126,712</u>
Total	<u>\$ 21,120,000</u>	<u>\$ 13,590,612</u>	<u>\$ 34,710,612</u>

Developer Advances

The District has entered into an Advance and Reimbursement Agreement (the Reimbursement Agreement) with the Developer where the Developer is to provide for the advancement of certain monies to the District for capital improvement costs and operation and maintenance costs. Pursuant to the agreement, the Developer has agreed to advance amounts not to exceed the aggregate of \$7,000,000 for capital improvement costs and \$1,000,000 for operating and maintenance costs. The District agrees to repay the Developer, along with accrued interest, at a rate of 6% simple interest. The agreements do not constitute a multiple-fiscal year obligation. As of December 31, 2009, outstanding advances totaled \$239,823.

Pursuant to an Amended and Restated Infrastructure Acquisition Agreement (the Acquisition Agreement), entered into on November 18, 2008 with the Developer, the District has agreed to purchase, using the proceeds of available funds, certain public improvements the Developer has provided, or is in the process of providing, on the Districts' behalf with the understanding that the District would acquire such improvements from the Developer at some future point in time. Advances made to the District will accrue interest at a rate of 8% until paid. This agreement does not constitute a multi-year fiscal obligation. Any infrastructure acquisitions which can not be immediately reimbursed to the Developer shall be added to the balance owed to the Developer. However, pursuant to the Service Plan of the District, the District is limited to a

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

6. Long-Term Liabilities (continued)

total debt limit of \$30,000,000. Acquisitions which would cause the total debt of the District to exceed this cap will therefore be a contribution to the District from the Developer and will not be shown as a liability due to the Developer. At December 31, 2009, outstanding advances total \$6,887,630.

Debt Authorization

On November 2, 2004, the District's electors authorized the issuance of indebtedness totaling \$787,500,000 at an interest rate not to exceed 12%. The following schedule shows the amounts authorized and issued as of December 31, 2009:

	Authorized November 2, 2004	Authorization Used, Series 2006	Remaining at December 31, 2009
Streets	\$ 60,000,000	\$ -	\$ 60,000,000
Traffic & safety	60,000,000	-	60,000,000
Water	60,000,000	17,508,480	42,491,520
Sanitary sewer and storm drainage	60,000,000	3,611,520	56,388,480
Parks and recreation	60,000,000	-	60,000,000
Transportation	60,000,000	-	60,000,000
Television relay	60,000,000	-	60,000,000
Mosquito control	60,000,000	-	60,000,000
Fire and ambulance	60,000,000	-	60,000,000
Operations and maintenance	60,000,000	-	60,000,000
Intergovernmental contracts	60,000,000	-	60,000,000
Reimbursement agreements	60,000,000	-	60,000,000
Management services	7,500,000	-	7,500,000
Refunding of debt	<u>60,000,000</u>	<u>-</u>	<u>60,000,000</u>
Total	<u>\$ 787,500,000</u>	<u>\$ 21,120,000</u>	<u>\$ 766,380,000</u>

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

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

7. Net Assets

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of bonds or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. The District's Net Assets (Equity) is equal to the District's capital assets, net of depreciation due to capital and service obligations due from District No.2 , the entire balance of which is reported as Invested in capital assets, net of related debt.

Restricted assets include net assets that are restricted for use either externally imposed by grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net assets of \$5,094 as of December 31, 2009 which are restricted for emergencies as required by Colorado legislation.

The District's unrestricted net assets as of December 31, 2009 totaled \$(5,094).

8. Related Parties

The Developer of the property which constitutes the District is Cornerstone Montrose LLC, a Delaware limited liability company, and a wholly-owned subsidiary of Hunt Realty Corporation. The members of the Board of Directors are officers, employees or associated with the Developer and may have conflicts of interest in dealing with the District.

9. Economic Dependency

The District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by Cornerstone Metropolitan District No. 2 and the Developer.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

10. Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

11. Intergovernmental Agreements

District Facilities Construction and Service Agreement

On December 16, 2004, the Districts entered into a Districts Facilities Construction and Service Agreement (the Master IGA). The Master IGA provides that the District is to construct, own, maintain and operate the facilities benefiting Cornerstone Metropolitan District No. 2 as provided by the Consolidated Service Plan. Cornerstone Metropolitan District No. 2 is to finance such activities from their annual certification of a mill levy, specific ownership taxes and development fees. The mill levy is limited by the Service Plan wherein the combined maximum mill levy shall not exceed 55.000 mills, with the maximum operations mill levy not to exceed 20.000 mills, and the maximum debt mill levy not to exceed 40.000 mills.

District Water Agreements

Pursuant to an Agreement for Construction of Water Delivery Infrastructure dated December 16, 2004 between the Developer and the Tri-County Water Conservancy District, the Developer is to design, install and warranty the water delivery infrastructure necessary to serve the Development, together with necessary system enhancements in accordance with the terms of the agreement. The Developer has assigned all of its interest in the Agreement for

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

11. Intergovernmental Agreements (continued)

Construction of Water Delivery Infrastructure to the District pursuant to an Assignment Agreement dated February 21, 2006, between the Developer and the District (as amended, the Assignment Agreement). Furthermore, the Developer has assigned all of its interest in the Construction Contract to the District pursuant to the Assignment Agreement. Additionally, pursuant to a Potable Water Service Agreement dated August 18, 2004 between the Developer and the Tri-County Water Conservancy District, the Developer is responsible for the purchase and delivery of potable water to the Development. The Developer has assigned all of its interest in and to the Potable Water Service Agreement to the District pursuant to the Assignment Agreement.

Dave Wood Road Agreement

On July 10, 2008 the District entered into an agreement with Ouray County for additional access to the subdivision through Dave Wood Road. The agreement provides a mechanism for joint funding of maintenance costs related to Dave Wood Road whereby the District shall make an annual contribution to Ouray County of 10% of the budgeted amount established by the DWR Maintenance Plan and Budget for the upcoming year. During 2009, \$0 was paid by the District pursuant to the agreement.

Government Springs Road Maintenance Agreement

On May 1, 2006 the District entered into an agreement with Ouray County and Cornerstone Montrose LLC (the developer) which provides a mechanism for joint funding of maintenance costs related to Government Springs Road. Government Springs Road is the primary access the subdivision and per the agreement, the District shall make an annual contribution to Ouray County of 80% of the budgeted amount established by the GSR Maintenance Plan and Budget for the upcoming year. During 2009, \$0 was paid by the District pursuant to the agreement.

Montrose Fire Protection District Agreement

On June 23, 2009, the District (CMD) entered into an agreement with Montrose Fire Protection District to provide joint support in the event of an emergency at the Cornerstone subdivision. Per the agreement, the Fire District agrees to provide, when available, fire protection and emergency medical services within the subdivision. CMD will supplement the Fire District's efforts using a reserve of volunteers and equipment and all costs associated with a response by the Fire District to an event at Cornerstone shall reimbursed to the First District by CMD. CMD may then seek reimbursement from the owner of the property involved in the incident. In the event of a medical response, the Fire District shall assess any related fees directly to the patient receiving the emergency medical services.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2009

12. Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). At December 31, 2009, the District had an emergency reserve of \$5,094. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

On November 2, 2004, the District's voters authorized the District to increase property taxes \$60,000,000 annually, without limitation to rate, to pay the District's operations, maintenance and other expenses. The election also allows the District to collect, spend and retain all revenues without regard to the limitations contained within Article X, Section 20 of the Colorado constitution.

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

Supplementary Information

Cornerstone Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—Debt Service Fund
For the Year Ended December 31, 2009

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Investment income	\$ 46,171	\$ 9,025	\$ (37,146)
Intergovernmental revenue - Cornerstone No. 2	305,148	302,925	(2,223)
Development fee revenue	113,480	-	(113,480)
Total Revenue	464,799	311,950	(152,849)
Expenditures:			
Letter of credit fees	267,038	270,747	(3,709)
Bond interest	844,800	100,459	744,341
Bond principal	4,565,000	-	4,565,000
Paying agent and other fees	9,040	9,040	-
Remarketing agent fees	42,240	42,240	-
Contingency	100,000	-	100,000
Total Expenditures	5,828,118	422,486	5,405,632
Excess Revenue Over (Under)			
Expenditures	(5,363,319)	(110,536)	5,252,783
Other financing sources (uses):			
Transfer - bond issuance Cornerstone No. 2	4,565,000	-	(4,565,000)
Total other financing sources (uses)	4,565,000	-	(4,565,000)
Change in fund balance	(798,319)	(110,536)	687,783
Fund Balance—Beginning of year	1,846,849	1,880,590	33,741
Fund Balance—End of Year	\$ 1,048,530	\$ 1,770,054	\$ 721,524

Cornerstone Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—Capital Projects Fund
For the Year Ended December 31, 2009

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Investment income	\$ -	\$ 12	\$ 12
Total Revenue	-	12	12
Expenditures:			
Allocated Overhead from General Fund	15,000	-	15,000
Capital outlay	9,700,897	9,192,719	508,178
Total Expenditures	9,715,897	9,192,719	523,178
Excess Revenue Over (Under)			
Expenditures	(9,715,897)	(9,192,707)	523,190
Other financing sources (uses):			
Developer advance	9,715,897	9,192,063	(523,834)
Transfers - from General Fund	-	(3,728)	(3,728)
Total other financing sources (uses)	9,715,897	9,188,335	(527,562)
Change in fund balance	-	(4,372)	(4,372)
Fund Balance—Beginning of year	339	4,372	4,033
Fund Balance—End of Year	\$ 339	\$ -	\$ (339)

Cornerstone Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Water and Sewer Enterprise Fund
For the Year Ended December 31, 2009

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Water use fees	\$ 263,112	\$ 240,198	\$ (22,914)
Sewer use fees	12,285	7,020	(5,265)
Water tap fees	52,500	-	(52,500)
Sewer tap fees	37,500	-	(37,500)
Interest income and late fees	3,903	1,506	(2,397)
Developer advance	125,000	45,000	(80,000)
Total Revenue	494,300	293,724	(200,576)
Expenditures:			
Water operations			
Purchased treated water	140,876	132,342	8,534
Utilities	115,994	97,547	18,447
Engineering and contracted services	5,000	6,559	(1,559)
Operations and maintenance	39,600	41,257	(1,657)
Allocated overhead from General Fund	72,600	34,981	37,619
Sewer operations			
Utilities	15,750	2,393	13,357
Engineering and contracted services	30,100	30,864	(764)
Operations and maintenance	14,000	3,318	10,682
Allocated overhead from General Fund	48,400	23,320	25,080
Contingency	20,000	-	20,000
Total Expenditures	502,320	372,581	129,739
Net income (loss) non-GAAP basis	(8,020)	(78,857)	(70,837)
Reconciling differences between budgetary basis and generally accepted accounting principles (GAAP):			
Transfer of capital assets		5,229,718	
Change in net capital and service obligation due from Cornerstone Metro Dist. No. 2		123,916	
Developer advances		(45,000)	
Accrued interest expense		(59)	
Depreciation expense		(510,942)	
Net Income (GAAP Basis)		\$ 4,718,776	