

Cornerstone Metropolitan District No. 1

Annual Financial Report

December 31, 2010

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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, 2010, 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, 2010, 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.

Accounting principles generally accepted in the United States of America require that 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Haynie & Co.

Littleton, Colorado
June 29, 2011



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Cornerstone Metropolitan District No. 1 Management's Discussion and Analysis December 31, 2010

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, 2010.

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 (no activity in 2010) 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, 2010**

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

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

The basic proprietary fund financial statements can be found on pages 7 through 8 of this report. The District also presents a budgetary comparison for its proprietary funds on page 25.

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 – 22 of this report.

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2010**

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 Activities		Business-type Activities		Total	Total
	2010	2009	2010	2009	2010	2009
Assets:						
Current assets	123,146	1,814,052	57,683	67,756	180,829	1,881,808
Capital and other non-current assets	8,846,042	27,682,767	14,158,254	14,458,004	23,004,296	42,140,771
Total Assets	8,969,188	29,496,819	14,215,937	14,525,760	23,185,125	44,022,579
Liabilities:						
Current liabilities	56,556	98,017	-	-	56,556	98,017
Long-term and other non-current liabilities	7,771,222	28,216,628	246,178	45,059	8,017,400	28,261,687
Total Liabilities	7,827,778	28,314,645	246,178	45,059	8,073,956	28,359,704
Net Assets:						
Invested in fixed assets, net of related debt	1,141,410	1,182,174	13,969,759	14,480,701	15,111,169	15,662,875
Restricted for emergencies	6,334	5,094	-	-	6,334	5,094
Unrestricted	(6,334)	(5,094)	-	-	(6,334)	(5,094)
Total Net Assets	1,141,410	1,182,174	13,969,759	14,480,701	15,111,169	15,662,875

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

	Governmental Activities		Business-type Activities		Total	Total
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	-	-	226,103	248,363	226,103	248,363
Operating grants and contributions	707,581	590,796	211,192	-	918,773	590,796
Capital grants and contributions	761,919	9,190,216	15,000	123,916	776,919	9,314,132
General revenues:						
Interest and other revenue	5,723	9,183	-	361	5,723	9,544
Total Revenues	1,475,223	9,790,195	452,295	372,640	1,927,518	10,162,835
Expenses:						
General government	370,115	69,376	-	-	370,115	69,376
Public works	106,589	107,468	-	-	106,589	107,468
Public Safety	74,195	13,525	-	-	74,195	13,525
Intergovernmental agreement	15,779	-	-	-	15,779	-
Conveyance of capital assets	-	3,637,280	-	-	-	3,637,280
Interest on long-term debt	949,309	418,599	-	-	949,309	418,599
Water and Sewer	-	-	963,237	883,582	963,237	883,582
Total Expenses	1,515,987	4,246,248	963,237	883,582	2,479,224	5,129,830
Change in Net Assets before Transfers	(40,764)	5,543,947	(510,942)	(510,942)	(551,706)	5,033,005
Capital transfers	-	(5,229,718)	-	5,229,718	-	-
Change in Net Assets	(40,764)	314,229	(510,942)	4,718,776	(551,706)	5,033,005
Net Assets - Beginning	1,182,174	867,945	14,480,701	9,761,925	15,662,875	10,629,870
Net Asset - Ending	1,141,410	1,182,174	13,969,759	14,480,701	15,111,169	15,662,875

**Cornerstone Metropolitan District No. 1
Management's Discussion and Analysis (continued)
December 31, 2010**

The District is the “service district” in a dual district structure whereby the District has and will continue to construct and operate the infrastructure for the Cornerstone development. The District has entered into a District Facilities Construction and Service Agreement with Cornerstone Metropolitan District No. 2. Under the agreement, District No. 1 (the “Operating District”) is responsible for managing the construction of all facilities and improvements and for the operation and maintenance of all improvements not conveyed to another public entity. District No. 2 (the “Taxing District”) is responsible for providing the funding for all infrastructure improvements and the revenue needed to support the ongoing operation and maintenance of the improvements and public facilities. Cornerstone Metropolitan District No. 2 will ultimately pay off the “capital obligation” for construction costs as well as the “service obligation” for the 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, decreased by a total of \$551,706, which is due to depreciation of the District’s infrastructure. The District’s revenues consisted primarily of intergovernmental agreement revenues received from District No. 2, including proceeds from a bond issuance, which the District used to pay off its Series 2006 Bonds, 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 \$66,590, which is a decrease of \$1,717,688 as a result of debt service funds being transferred to District No. 2 in conjunction with the District No. 2 bond transaction. Of this fund balance, \$1,039 of this is nonspendable and \$6,334 is restricted for emergencies. The remainder of the combined fund balance of \$59,217 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, 2010**

As of the end of the current fiscal year, the District's proprietary fund reported ending net assets of \$13,969,759, 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 required to amend its 2010 budget related to the retirement of bonds from funds received from District No. 2. Details of the budgets can be seen on pages 6, 23, and 24 of this report for governmental funds and page 25 for the Water and Sewer Fund.

Capital assets

The District's investment in capital assets government-wide, net of accumulated depreciation decreased by \$551,706 as a result of current year depreciation expense. 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 15 of this report.

Long-term debts

The District's long-term debts decreased by \$21,097,452 during the year due to the payoff of the bonded debt. Additional information can be found in the Notes to the Financial Statements on page 16 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, 2010

Assets	Governmental Activities	Business- Type Activities	Total
Investments in pooled cash	\$ 70,714	\$ 18,529	\$ 89,243
Intergovernmental receivable	51,393	-	51,393
Accounts receivable	-	39,154	39,154
Prepaid expenses	1,039	-	1,039
Non-Current service obligation receivable due from Cornerstone Metro Dist. No. 2	4,197,611	188,495	4,386,106
Non-Current capital obligation receivable due from Cornerstone Metro Dist. No. 2	3,507,021	-	3,507,021
Capital assets, net of depreciation:			-
Water and sewer infrastructure	-	13,969,759	13,969,759
Roads	1,141,410	-	1,141,410
Total assets	<u>8,969,188</u>	<u>14,215,937</u>	<u>23,185,125</u>
Liabilities			
Accounts payable	56,556	-	56,556
Accrued interest payable	861,221	6,178	867,399
Developer advance payable - general operations	212,260	-	212,260
Developer advance payable - water operations	-	240,000	240,000
Developer advance payable - capital	6,697,741	-	6,697,741
Total liabilities	<u>7,827,778</u>	<u>246,178</u>	<u>8,073,956</u>
Net Assets			
Invested in capital assets, net of related debt	1,141,410	13,969,759	15,111,169
Restricted for emergencies	6,334	-	6,334
Unrestricted	(6,334)	-	(6,334)
Total Net Assets	<u>1,141,410</u>	<u>13,969,759</u>	<u>15,111,169</u>
Total Liabilities and Net Assets	<u>\$ 8,969,188</u>	<u>\$14,215,937</u>	<u>\$ 23,185,125</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, 2010

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	\$ 370,115	\$ -	\$ -	\$ -	\$ (370,115)	\$ -	\$ (370,115)
Public works	106,589	-	-	7,345	(99,244)	-	(99,244)
Public safety	74,195	-	-	-	(74,195)	-	(74,195)
Intergovernmental agreement	15,779	-	707,581	754,574	1,446,376	-	1,446,376
Interest and related costs on long term debt	949,309	-	-	-	(949,309)	-	(949,309)
	<u>1,515,987</u>	<u>-</u>	<u>707,581</u>	<u>761,919</u>	<u>(46,487)</u>	<u>-</u>	<u>(46,487)</u>
Business-type activities							
Water and sewer	963,237	226,103	-	15,000	-	(722,134)	(722,134)
Intergovernmental agreement	-	-	211,192	-	-	211,192	211,192
	<u>963,237</u>	<u>226,103</u>	<u>211,192</u>	<u>15,000</u>	<u>-</u>	<u>(510,942)</u>	<u>(510,942)</u>
General revenues:							
Investment income					5,723	-	5,723
Total general revenues and transfers					<u>5,723</u>	<u>-</u>	<u>5,723</u>
Change in net assets					(40,764)	(510,942)	(551,706)
Net assets - beginning of year					1,182,174	14,480,701	15,662,875
Net assets - end of year					<u>\$ 1,141,410</u>	<u>\$ 13,969,759</u>	<u>\$ 15,111,169</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, 2010

Assets	General Fund	Debt Service Fund	Total
Investments in pooled cash	\$ 116,752	\$ (46,038)	\$ 70,714
Intergovernmental receivable	5,355	46,038	51,393
Prepaid expense	1,039	-	1,039
Total assets	\$ 123,146	\$ -	\$ 123,146
Liabilities			
Accounts payable	\$ 56,556	\$ -	\$ 56,556
Total liabilities	56,556	-	56,556
Fund Balances			
Non-spendable	1,039	-	1,039
Restricted for emergencies	6,334	-	6,334
Assigned for debt service	-	-	-
Unassigned	59,217	-	59,217
Total Fund Balances	66,590	-	66,590
Total Liabilities and Fund Balance	\$ 123,146	\$ -	\$ 123,146

Total governmental fund balance per above \$ 66,590

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. 1,141,410

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 7,704,632

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

Developer advance payable - general operations	(212,260)
Developer advance payable - capital	(6,697,741)
Accrued interest payable	(861,221)

Net assets of governmental activities \$ 1,141,410

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, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:			
Investment income	\$ 40	\$ 5,683	\$ 5,723
Development fee revenue	-	7,345	7,345
Intergovernmental revenue - Cornerstone No. 2	<u>267,291</u>	<u>477,305</u>	<u>744,596</u>
Total General Revenues	<u>267,331</u>	<u>490,333</u>	<u>757,664</u>
Expenses:			
General government			
Accounting and audit	38,177	-	38,177
Dues and subscriptions	1,449	-	1,449
Insurance and bonds	11,017	-	11,017
Legal and professional fees	10,464	-	10,464
District management	54,600	-	54,600
Other expenses	2,797	-	2,797
Allocated overhead	(47,401)	-	(47,401)
Public safety	74,195	-	74,195
Public works			
Road repairs and maintenance	65,825	-	65,825
Debt service			
Letter of credit fees	-	328,158	328,158
Bond interest	-	66,114	66,114
Paying agent and other fees	-	9,040	9,040
Remarketing agent fees	<u>-</u>	<u>56,359</u>	<u>56,359</u>
Total Expenditures	<u>211,123</u>	<u>459,671</u>	<u>670,794</u>
Excess (Deficiency) of Revenues over expenditures	56,208	30,662	86,870
Other financing sources/uses:			
Developer advance - Operations	17,437	-	17,437
Intergovernmental transfer from Cornerstone Metro Dist. No. 2	-	19,503,673	19,503,673
Principal reduction of debt balances	-	(21,309,889)	(21,309,889)
Inter-district contribution	-	(15,779)	(15,779)
Transfers—internal activities	<u>(21,279)</u>	<u>21,279</u>	<u>-</u>
	<u>(3,842)</u>	<u>(1,800,716)</u>	<u>(1,804,558)</u>
Net change in fund balance	52,366	(1,770,054)	(1,717,688)
Fund balances:			
Beginning of the year	<u>14,224</u>	<u>1,770,054</u>	<u>1,784,278</u>
End of the year	<u>\$ 66,590</u>	<u>\$ -</u>	<u>\$ 66,590</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, 2010

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

Net change in fund balance—total governmental funds \$ (1,717,688)

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.

Depreciation (40,764)

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.

Bond principal reduction	21,120,000
Developer note reduction	189,889
Developer advances received	(17,437)
Change in accrued interest and fees on long-term debt	(489,638)
Amortization of bond issuance costs	(299,012)

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.

(18,786,114)

Change in net assets of governmental activities

\$ (40,764)

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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:				
Investment income	\$ 767	\$ 767	\$ 40	\$ (727)
Intergovernmental revenue - Cornerstone No. 2	<u>272,314</u>	<u>272,314</u>	<u>267,291</u>	<u>(5,023)</u>
Total revenue	<u>273,081</u>	<u>273,081</u>	<u>267,331</u>	<u>(5,750)</u>
Expenditures:				
General government				
Accounting and audit	90,000	90,000	38,177	51,823
Dues and subscriptions	1,500	1,500	1,449	51
Insurance and bonds	10,050	10,050	11,017	(967)
Legal and professional fees	35,000	35,000	10,464	24,536
District management	60,000	60,000	54,600	5,400
Other expenses	1,500	11,500	2,797	8,703
Allocated overhead	(83,220)	(87,220)	(47,401)	(39,819)
Contingency	10,000	10,000	-	10,000
Public safety				
Fire and emergency medical	7,653	7,653	4,962	2,691
Public safety operations	82,250	82,250	69,233	13,017
Public works				
Road repairs and maintenance	<u>133,877</u>	<u>133,877</u>	<u>65,825</u>	<u>68,052</u>
Total Expenditures	<u>348,610</u>	<u>354,610</u>	<u>211,123</u>	<u>143,487</u>
Excess revenue over (under) expenditures	<u>(75,529)</u>	<u>(81,529)</u>	<u>56,208</u>	<u>137,737</u>
Other financing sources (uses):				
Developer advance	80,000	80,000	17,437	(62,563)
Transfers—internal activities	<u>-</u>	<u>-</u>	<u>(21,279)</u>	<u>(21,279)</u>
	<u>80,000</u>	<u>80,000</u>	<u>(3,842)</u>	<u>(83,842)</u>
Net change	4,471	(1,529)	52,366	53,895
Fund Balance—Beginning of year	<u>17,331</u>	<u>17,331</u>	<u>14,224</u>	<u>(3,107)</u>
Fund Balance—End of Year	<u>\$ 21,802</u>	<u>\$ 15,802</u>	<u>\$ 66,590</u>	<u>\$ 50,788</u>

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, 2010

Operating Revenues	
Water use fees	\$ 217,423
Water tap fees	7,500
Sewer use fees	8,680
Sewer tap fees	7,500
Total operating revenues	<u>241,103</u>
Operating Expenses	
Water operating expenses	359,822
Sewer operating expenses	38,953
Allocated overhead from General Fund	47,401
Depreciation expense	510,942
Total operating expenses	<u>957,118</u>
Net Operating (Loss)	<u>(716,015)</u>
Non-Operating Revenues (Expenses)	
Interest expense	(6,119)
Change in net capital and service obligation due from Cornerstone Metro Dist. No. 2	<u>211,192</u>
Total Non-Operating Revenues (Expenses)	<u>205,073</u>
Change in Net Assets	(510,942)
Net Assets—Beginning of Year	<u>14,480,701</u>
Net Assets—End of Year	<u><u>\$ 13,969,759</u></u>

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

Cornerstone Metropolitan District No. 1
Statement of Cash Flows
Proprietary Fund Type—Water and Sewer Enterprise Fund
For the Year Ended December 31, 2010

Cash Flows from Operating Activities	
Cash received from customers	\$ 232,287
Cash paid to suppliers for goods and services	(398,061)
Cash paid to General Fund for allocated overhead	<u>(47,401)</u>
Net cash (used in) operating activities	<u>(213,175)</u>
Cash Flows from Non-Capital Financing Activities	
Developer advances	<u>195,000</u>
Net cash provided by capital and related financing activities	<u>195,000</u>
Net Decrease in Cash and Cash Equivalents	(18,175)
Cash and Cash Equivalents—Beginning of Year	<u>36,704</u>
Cash and Cash Equivalents—End of Year	<u><u>\$ 18,529</u></u>
Reconciliation of Net Operating Loss to	
Net Cash From Operating Activities:	
Net Operating Loss	\$ (716,015)
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>(8,102)</u>
Total Adjustments	<u>502,840</u>
Net Cash (Used in) Operating Activities	<u><u>\$ (213,175)</u></u>
Non-cash investing, capital and financing transactions:	
Change in service and capital obligations	211,192
Accrued interest on long-term debt	6,178

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

Cornerstone Metropolitan District No. 1

Notes to Financial Statements

December 31, 2010

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, 2010

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, 2010

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 (no current-year activity) 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 District reports the following major proprietary funds:

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

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

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

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

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2010

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. During the year ended December 31, 2010, supplementary appropriations approved by the District modified the appropriations in the General, Debt Service, and Enterprise Funds.

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

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2010

2. Summary of Significant Accounting Policies (continued)

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 \$66,590 as of December 31, 2010. Of this balance, \$1,039 was non-spendable since it had already been used to pre-pay expenses of 2011, \$6,334 was restricted for emergencies, as required by TABOR, and the remaining balance of \$59,217 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.

As of December 31, 2010, the District's cash deposits had a bank balance of \$110,671 and a carrying balance of \$88,753, all of which was FDIC insured.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2010

3. Cash and Investments (continued)

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, 2010

3. Cash and Investments (continued)

As of December 31, 2010, the District had the following investments:

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

CSAFE

During 2010, 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, 2010, the District had \$490 invested in CSAFE.

4. Capital Assets

An analysis of the changes in net capital asset during 2010 follows:

	Balance December 31, 2009	Additions	Retirements/ Transfers	Balance December 31, 2010
Governmental Activities:				
Capital assets, depreciable:				
Roads	\$ 1,222,939	\$ -	\$ -	\$ 1,222,939
Accumulated depreciation	(40,765)	(40,764)	-	(81,529)
Business-Type Activities:				
Capital assets, depreciable:				
Water and Sewer	15,328,261	-	-	15,328,261
Accumulated depreciation	<u>(847,560)</u>	<u>(510,942)</u>	<u>-</u>	<u>(1,358,502)</u>
Total depreciable capital assets, net	<u>\$ 15,662,875</u>	<u>\$ (551,706)</u>	<u>\$ -</u>	<u>\$ 15,111,169</u>

Depreciation expense charged in 2010 to the governmental and enterprise functions of the District were \$40,764 and \$510,942, respectively.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2010

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, 2010.

6. Long-Term Liabilities

The following is an analysis of changes in the District's long-term debt for the year ended December 31, 2010:

	Balance December 31, 2009	Additions	Payments	Balance December 31, 2010	Due Within One Year
Series 2006, \$21,120,000					
Revenue Bonds	\$ 21,120,000	\$ -	\$ (21,120,000)	\$ -	\$ -
Developer advance					
- General fund operations	194,823	17,437	-	212,260	-
- Water and sewer fund operations	45,000	195,000	-	240,000	-
- Capital	<u>6,887,630</u>	<u>-</u>	<u>(189,889)</u>	<u>6,697,741</u>	<u>-</u>
	<u>\$ 28,247,453</u>	<u>\$ 212,437</u>	<u>\$ (21,309,889)</u>	<u>\$ 7,150,001</u>	<u>\$ -</u>

The details of the District's long-term debt outstanding at December 31, 2010 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

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2010

6. Long-Term Liabilities (continued)

less than 25.000 mills. For 2010, 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 is secured by the Developer and Hunt Realty Investments (f.k.a. Hunt Realty Corporation) which are jointly responsible for any draws and reimbursements on the letter of credit.

These bonds were paid in full in December 2010 and are no longer outstanding.

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, 2010, outstanding advances totaled \$452,260.

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 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, 2010, outstanding advances total \$6,697,741.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2010

6. Long-Term Liabilities (continued)

Debt Authorization

On November 2, 2004, the District's electors authorized the issuance of indebtedness totaling \$787,500,000 at an interest rate not to exceed 12%. The following schedule shows the amounts authorized and issued as of December 31, 2010:

	Authorized November 2, 2004	Authorization Used, Series 2006	Remaining at December 31, 2010
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	60,000,000	-	60,000,000
	<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, 2010

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 \$6,334 as of December 31, 2010 which are restricted for emergencies as required by Colorado legislation.

The District's unrestricted net assets as of December 31, 2010 totaled \$(6,334).

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 Investments (f.k.a. 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, 2010

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, 2010

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). 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 2010, \$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 2010, \$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 Fire District by CMD. CMD may then seek reimbursement from the owner of the property involved in the incident. In the event of a medical response, the Fire District shall assess any related fees directly to the patient receiving the emergency medical services. During 2010, \$-0- was paid by the District pursuant to the agreement.

Cornerstone Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2010

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, 2010, the District had an emergency reserve of \$6,334. 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, 2010

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue:				
Investment income	\$ 8,764	\$ 8,764	\$ 5,683	\$ (3,081)
Development fee revenue	-	7,345	7,345	-
Intergovernmental revenue - Cornerstone No. 2	486,276	486,276	477,305	(8,971)
Total Revenue	495,040	502,385	490,333	(12,052)
Expenditures:				
Letter of credit fees	271,488	338,434	328,158	10,276
Bond interest	422,400	59,136	66,114	(6,978)
Paying agent and other fees	9,040	9,040	9,040	-
Remarketing agent fees	42,240	52,800	56,359	(3,559)
Contingency	250,000	-	-	-
Total Expenditures	995,168	459,410	459,671	(261)
Excess Revenue Over (Under)				
Expenditures	(500,128)	42,975	30,662	(12,313)
Other financing sources (uses):				
Intergovernmental transfer from				
Cornerstone Metro Dist. No. 2	-	19,511,388	19,503,673	7,715
Bond principal	-	(21,120,000)	(21,120,000)	-
Developer note principal	-	(192,583)	(189,889)	(2,694)
Inter-district contribution	-	(15,000)	(15,779)	779
Transfer - internal activities	-	20,500	21,279	(779)
Total other financing sources (uses)	-	(1,795,695)	(1,800,716)	(5,021)
Change in fund balance	(500,128)	(1,752,720)	(1,770,054)	(17,334)
Fund Balance—Beginning of year	1,752,720	1,752,720	1,770,054	17,334
Fund Balance—End of Year	\$1,252,592	\$ -	\$ -	\$ -

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, 2010

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>
Revenue:			
Investment income	\$ -	\$ -	\$ -
Total Revenue	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:			
Capital outlay	500,000	-	500,000
Total Expenditures	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Excess Revenue Over (Under)			
Expenditures	<u>(500,000)</u>	<u>-</u>	<u>500,000</u>
Other financing sources (uses):			
Developer advance	500,000	-	(500,000)
Total other financing sources (uses)	<u>500,000</u>	<u>-</u>	<u>(500,000)</u>
Change in fund balance	-	-	-
Fund Balance—Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance—End of Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Water use fees	\$ 283,088	\$ 283,088	\$ 217,423	\$ (65,665)
Sewer use fees	9,940	9,940	8,680	(1,260)
Water tap fees	7,500	7,500	7,500	-
Sewer tap fees	7,500	7,500	7,500	-
Interest income and late fees	685	685	-	(685)
Developer advance	290,000	290,000	195,000	(95,000)
Total Revenue	<u>598,713</u>	<u>598,713</u>	<u>436,103</u>	<u>(162,610)</u>
Expenditures:				
Water operations				
Purchased treated water	158,208	158,208	114,798	43,410
Utilities	122,295	122,295	88,993	33,302
Engineering and contracted services	135,500	135,500	132,045	3,455
Operations and maintenance	36,000	36,000	23,986	12,014
Allocated overhead from General Fund	62,415	65,415	35,551	29,864
Sewer operations				
Utilities	2,100	2,100	2,802	(702)
Engineering and contracted services	30,500	30,500	34,955	(4,455)
Operations and maintenance	8,000	8,000	1,196	6,804
Allocated overhead from General Fund	20,805	21,805	11,850	9,955
Contingency	20,000	20,000	-	20,000
Total Expenditures	<u>595,823</u>	<u>599,823</u>	<u>446,176</u>	<u>153,647</u>
Net income (loss) non-GAAP basis	<u>\$ 2,890</u>	<u>\$ (1,110)</u>	(10,073)	<u>\$ (8,963)</u>
Reconciling differences between budgetary basis and generally accepted accounting principles (GAAP):				
Change in net capital and service obligation due from Cornerstone Metro Dist. No. 2			211,192	
Developer advances			(195,000)	
Accrued interest expense			(6,119)	
Depreciation expense			<u>(510,942)</u>	
Net Income (GAAP Basis)			<u>\$ (510,942)</u>	