

**GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2011

**GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Granby Ranch Metropolitan District
Town of Granby, Colorado

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Granby Ranch Metropolitan District, Town of Granby, Colorado, as of December 31, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing 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. Our opinion on the basis financial statements is not affected by the missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was presented for the purpose of additional analysis and was not a required part of the financial statements. The Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hiratsuka & Schmitt, LLP

May 16, 2012
Denver, Colorado

MANAGEMENT'S DISCUSSION AND ANALYSIS

Granby Ranch Metropolitan District

Management's Discussion and Analysis December 31, 2011

As management of Granby Ranch Metropolitan District (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, 2011.

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 financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with an overview of the District's finances, from both a short-term fund perspective and a long-term economic perspective.

The Governmental Funds Balance Sheet/Statement of Net Assets presents information on all the District's assets and liabilities (both short-term and long-term), with the difference between the two reported as fund balance or net assets. The Balance Sheet columns present the financial position focusing on short-term available resources and are reported on a modified accrual basis of accounting. The Statement of Net Assets column presents the financial position focusing on long-term economic resources and is reported on a full accrual basis. 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 Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities shows how the government's fund balances and net assets changed during the most recent fiscal year. Again, the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances column focuses on short-term available resources and is reported on a modified accrual basis. The Statement of Activities column focuses on long-term economic resources and is reported on a full accrual basis.

The District's government-wide financial statements can be found on pages 1 & 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 uses fund accounting to ensure and demonstrate compliance with legal requirements. The District currently has one governmental fund, the Debt Service Fund.

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.

Overview of the Financial Statements (continued)

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 3 through 13 of this report.

Government-wide Financial Analysis. A condensed comparative summary of the District's government-wide assets, liabilities, net assets, revenues and expenditures follows:

Granby Ranch Metropolitan District's Statement of Net Assets

	Governmental Activities	
	2011	2010
Assets:		
Current assets	\$ 5,481,574	\$ 5,573,995
Non-current Assets	611,689	636,656
Total Assets	6,093,263	6,210,651
Liabilities:		
Current and other liabilities	771,743	1,106,283
Long-term obligations payable	26,870,959	26,296,474
Total Liabilities	27,642,702	27,402,757
Net Assets:		
Restricted	4,710,101	4,467,712
Unrestricted	(26,259,270)	(25,659,818)
Total Net Assets	\$ (21,549,169)	\$ (21,192,106)

Granby Ranch Metropolitan District's Statement of Activities

Revenues:		
Program Revenues:		
Capital Facility Fees	\$ 104,158	\$ 37,530
Operating grants and contributions	39,147	39,824
General revenues:		
Taxes	1,193,600	1,038,740
Interest and other revenue	156,850	22,817
Total Revenues	1,493,755	1,138,911
Expenses:		
General Government	82,520	75,653
Debt Service	1,768,298	1,513,584
Intergovernmental	-	302,279
Total Expenses	1,850,818	1,891,516
Change in Net Assets	(357,063)	(752,605)
Net Assets - Beginning	(21,192,106)	(20,439,501)
Net Assets - Ending	\$ (21,549,169)	\$ (21,192,106)

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

The District is one taxing district in a district structure which consists of Headwaters Metropolitan District (HMD), the operating district, and seven additional taxing districts, Granby Ranch Metropolitan District Nos. 2-8 (GRMD #2-8). HMD will construct the public infrastructure in Granby Ranch area and the taxing districts (GRMD and GRMD #2-8) will ultimately pay the cost of constructing and operating those improvements. Certain improvements like water and sanitary sewer improvements will be conveyed to the Town of Granby and other improvements like roads, roadway landscaping and drainage improvements will be operated and maintained by HMD. As the taxing districts have the financial ability to issue bonds, they have an obligation to issue such bonds, the proceeds of which will be used to pay the cost of constructing the infrastructure.

During 2011, the District earned a total of \$1,493,755 in revenue, the majority of which came from property tax collections. The District's assessed valuation increased from \$17,923,150 in 2010 to \$20,764,354 in 2011, which increased the property taxes earned by the District. Due to this increase and an increase in the capital facility fees collected, the District earned more revenue in 2011 than in 2010.

The expenses of the District primarily consisted of interest changes on the bonds issues in previous years. In 2011, District expenses were \$1,850,818, which is similar to the 2010 expenses of \$1,891,516.

The District has a large deficit net assets balance which is the result of the assets of the community being owned and operated by Headwaters and the Town of Granby while the debt associated with the construction and operation of those assets staying with Granby Ranch and the other financing districts.

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.

As of the end of the current fiscal year, the District's governmental funds reported an ending fund balance of \$4,710,101 which reflects an increase of \$242,389 during 2011. The main sources of revenue for the District are property taxes, capital facilities fees, and interest income. The revenue earned in 2011 from these sources was more than the required debt service payments on the District's 2006 bonds.

Budget Variances. The District expenditures were similar to budgeted results except that the District received more capital facility fees and interest income than anticipated. Details can be seen on page 14.

Capital assets. As stated above, the infrastructure in Granby Ranch is owned by other municipalities, so there are no capital assets reported by the District.

Long-term debts. The District's long-term debt totaled \$25,484,000, consisting of \$14,365,000 of senior Bonds and \$11,119,000 in subordinate bonds. Additional information can be found in the Notes to the Financial Statement on page 7 through 9 of this report.

Economic Conditions. The County Assessor reassessed the value of the property in the District effective January 1, 2011. The revaluation was used to set the 2011 property taxes payable in 2012. The final valuations reflect a reduction in the District's assessed value of approximately 30%. It is anticipated the District will need to use a portion of the accumulated fund balance of the Debt Service Fund to cover the anticipated shortfall.

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, P.C., 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

BASIC FINANCIAL STATEMENTS

GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
GOVERNMENTAL FUNDS - BALANCE SHEET/STATEMENT OF NET ASSETS
December 31, 2011

	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Assets
Assets:				
Accounts receivable:				
Due from Treasurer	\$ 2,999	\$ 2,999	--	\$ 2,999
Taxes	769,801	769,801	--	769,801
Sol Vista Metropolitan District	410	410	--	410
Restricted investments	4,708,364	4,708,364	--	4,708,364
Bond issuance costs Series 2006, net of accumulated amortization	--	--	611,689	611,689
Total assets	\$ 5,481,574	\$ 5,481,574	611,689	6,093,263
Liabilities:				
Accounts payable	\$ 1,150	\$ 1,150	\$ --	\$ 1,150
Due to Headwaters Metropolitan District	--	--	--	--
Due to Granby Ranch Metropolitan District No. 2	522	522	--	522
Deferred property taxes	769,801	769,801	--	769,801
Accrued interest	--	--	1,386,959	1,386,959
Long term liabilities:				
Due within one year	--	--	255,000	255,000
Due in more than one year	--	--	25,229,000	25,229,000
Total liabilities	771,473	771,473	26,870,959	27,642,432
Fund balances/Net assets:				
Restricted for:				
TABOR	--	--	--	--
Debt service	4,710,101	4,710,101	(4,710,101)	--
Unassigned	--	--	--	--
Total fund balances	4,710,101	4,710,101	(4,710,101)	--
Total liabilities and fund balances	\$ 5,481,574	\$ 5,481,574		
Restricted for:				
TABOR			--	--
Debt Service			4,710,101	4,710,101
Unrestricted			(26,259,270)	(26,259,270)
Total net assets (deficit)			\$(21,549,169)	\$(21,549,169)

The accompanying notes are an integral part of these statements.

GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Activities
Expenditures/expenses:				
Treasurer's fees	\$ 55,403	\$ 55,403	\$ --	\$ 55,403
Amortization of issuance costs	--	--	24,967	24,967
Paying agent fees	2,150	2,150	--	2,150
Debt service:				
Principal	210,000	210,000	(210,000)	--
Interest	983,813	983,813	784,485	1,768,298
Total expenditures/expenses	1,251,366	1,251,366	599,452	1,850,818
General revenues:				
Property taxes	1,105,005	1,105,005	--	1,105,005
Specific ownership taxes	37,876	37,876	--	37,876
Payment in lieu of taxes	50,719	50,719	--	50,719
Capital facilities fees	104,158	104,158	--	104,158
Contributions from Sol Vista Metropolitan District	39,147	39,147	--	39,147
Interest income	16,367	16,367	--	16,367
Interest income - GIC Settlement	140,483	140,483	--	140,483
Miscellaneous	--	--	--	--
Total revenues	1,493,755	1,493,755	--	1,493,755
Excess of revenues over (under) expenditures	242,389	242,389	(599,452)	(357,063)
Fund balance, beginning of year	4,467,712	4,467,712	(25,659,818)	(21,192,106)
Fund balance, end of year	\$ 4,710,101	\$ 4,710,101	\$(26,259,270)	\$(21,549,169)

The accompanying notes are an integral part of these statements.

**GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

1. Summary of significant accounting policies

The accounting policies of Granby Ranch Metropolitan District, (the District), located in the Town of Granby, Colorado, conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The following is a summary of the more significant policies consistently applied in the preparation of the financial statements.

Reporting entity

The District was established November 25, 2003, as a quasi-municipal corporation and political subdivision of the State of Colorado and is governed by an elected Board of Directors. The District was originally named SolVista Metropolitan District #2 and was part of the Sol Vista Golf and Ski Ranch development and overlapped with SolVista Metropolitan District No. 1 which was established in 1999 as Silver Creek Metropolitan District and changed its name on September 6, 2001. On October 23, 2004, the name of the District became Granby Ranch Metropolitan District. The District was formed contemporaneously with Sol Vista Metropolitan District #1, which on October 23, 2004, became Headwaters Metropolitan District (HMD). The Districts were organized to provide services, programs and facilities, including the financing of construction, completion, maintenance and operation of public infrastructure within the Districts' boundaries. Pursuant to the Service Plan, which was approved on July 22, 2003, the District serves as the "Taxing District" while HMD serves as the "Service District". Granby Ranch Metropolitan Districts 2 through 8 were established on September 25, 2007 as additional taxing districts. See Note 4 for a detailed description of the Service Plan and other agreements.

As required by US GAAP, these financial statements present the activities of the District which is legally separate and financially independent of other state and local governments.

The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The District has no employees and all services are contracted.

Basis of presentation

The accompanying financial statements are presented in accordance with GASB Statement No. 34 – Special Purpose Governments, Section Sp20.

The government-wide financial statements (i.e. the balance sheet/statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District, which are supported by general revenues. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues.

1. **Summary of significant accounting policies (continued)**

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 the related cash flow.

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 District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.

The District reports the following governmental funds:

Debt service fund – accounts for the accumulation of resources for general long-term debt repayment and contractual obligations owed to Headwaters Metropolitan District.

Property taxes

Property taxes are levied on December 15, of each year and attach as an enforceable lien on property as of January 1. Taxes are due as of January 1, of the following year and are payable in two equal installments due February 28, and June 15, if paid in installments, or April 30, with a single payment. Taxes are delinquent as of August 1. If the taxes are not paid within subsequent statutory periods, the lien will be sold at public auction. Grand County bills and collects the property taxes and remits collections, on a monthly basis. No provision has been made for uncollected taxes, as all taxes are deemed collectible.

Assets, liabilities and fund equity

Cash and investments

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest which include: obligations of the United States and certain U.S. government agency securities, general obligation and revenue bonds of U.S. local government entities, bankers acceptances of certain banks, commercial paper, written repurchase agreements collateralized by certain authorized securities, certain money market funds, guaranteed investment contracts, and local government investment pools.

1. **Summary of significant accounting policies (continued)**

Assets, liabilities and fund equity (continued)

Fair value of financial instruments

The District's financial instruments include cash and investments, accounts receivable, accounts payable and accrued expenses. The District estimates that the fair value of all financial instruments at December 31, 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Estimates

The preparation of financial statements in conformity with US GAAP requires District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Intergovernmental revenues

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

Fund equity

Beginning with fiscal year ending December 31, 2010, the District implemented GASB Statement 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. In the fund financial statements, the District considers all restricted and unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. The District considers all committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for the purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The restricted fund balance in the Debt Service Fund in the amount of \$4,710,101 is restricted for the payment of the debt service costs.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

2. **Stewardship, compliance and accountability**

Budgetary information

The District conforms to the following procedures in compliance with Colorado Revised Statutes in establishing the budgetary data reflected in the financial statements:

In the fall of each year, the District Board of Directors prepares a proposed operating budget for the fiscal year commencing the following January 1. The operating budget for the funds includes proposed expenses and the means of financing them.

**GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

2. Stewardship, compliance and accountability (continued)

Budgetary information (continued)

A public hearing is held at a Board of Directors meeting to obtain taxpayer input. Prior to December 15, the budget is legally enacted through passage of a budget resolution. The 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.

3. Detailed notes concerning the funds

Cash and investments

As of December 31, 2011, cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:

Restricted investments - CSAFE	\$	<u>4,708,364</u>
Total cash and investments	\$	<u><u>4,708,364</u></u>

Deposits

Custodial credit risk

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by Colorado Revised Statutes to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2011, all of the District's deposits were either held in deposit accounts insured by the Federal Deposit Insurance Corporation or in eligible depositories as required by PDPA.

Investments

Custodial and concentration of credit risk

The District has not adopted a formal investment policy; however, the District follows Colorado Revised Statutes regarding its investments. Colorado Revised Statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest (see Note 1).

The local government investment pool Colorado Surplus Asset Fund Trust (CSAFE) is rated AAAM by Standard and Poor's.

**GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

3. Detailed notes concerning the funds (continued)

Long-term debt

The following is an analysis of change in long-term obligations for the year ended December 31, 2011:

	Balance 12/31/10				Balance 12/31/11	Current Portion
Bonds:						
Series 2006	\$14,575,000	\$	--	\$(210,000)	\$14,365,000	\$255,000
Series 2010	11,119,000		--	--	11,119,000	--
Total	\$25,694,000	\$	--	\$(210,000)	\$25,484,000	\$255,000

2006 Limited Tax General Obligation Bonds – On July 5, 2006, the District issued Limited Tax General Obligation Bonds (the Series 2006 Bonds) in the amount of \$14,725,000, to partially finance the District's obligations under various intergovernmental agreements. These obligations are primarily related to construction of infrastructure and other various improvements on behalf of, and for the benefit of, residents of the District by other governmental entities. Additionally, proceeds of the Series 2006 Bonds were also used to fund debt service reserves and to finance costs associated with their issuance. The Series 2006 Bonds bear interest at the rate of 6.75%, payable semiannually on June 1 and December 1. The Series 2006 Bonds are subject to mandatory sinking fund redemption beginning annually on December 1, 2010 through 2036. The Series 2006 Bonds are subject to redemption prior to maturity at the option of the District on and after December 1, 2015, at a redemption price equal to their principal amount plus interest accrued thereon to the date of redemption. Accrued interest at December 31, 2011 was \$80,803.

The District is required to pledge a mill levy of up to 50 mills as adjusted for changed in assessment ratios, the revenues from SolVista Metropolitan District (See Note 4), capital facilities fees collected, and specific ownership taxes attributable to the mill levy towards the payment of the Bonds.

In conjunction with the issuance of the Series 2006 Bonds, Granby Realty Holdings, LLC (GRH), the primary developer within the District, entered into a lot sale escrow agreement. Under the terms of the agreement, GRH is required to deposit an amount equal to the lesser of fifteen percent of the net sale proceeds of any sale or \$2,500 per platted residential lot or \$5,000 per acre of unplatted property into the account, up to an aggregate maximum amount of \$1,500,000. To the extent the revenues of the District are insufficient to make the required payments on the Series 2006 Bonds when due, the shortfall is to be funded from the account. Since the account is only available to the District in the event revenues are insufficient to fund the annual debt service costs of the Series 2006 Bonds, the funds are not reported in the financial statements of the District. The account had a balance of \$813,600 as of December 31, 2011.

Also, in conjunction with the issuance of the Series 2006 Bonds, GRH entered into a guaranty agreement. Under the terms of the agreement, to the extent the revenues of the District and the balance in the lot sale escrow account are insufficient to make the required payments on the Series 2006 Bonds when due, the shortfall is to be funded by GRH.

Both the lot sale escrow agreement and the guarantee agreement will terminate when the debt to assessed ratio, as defined in the agreements, is equal to or less than 45%.

**GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

3. Detailed notes concerning the funds (continued)

Long-term debt (continued)

Annual debt service requirements to maturity for the Series 2006 Bonds are as follows:

	Principal	Interest	Total
2012	\$ 255,000	\$ 969,638	\$ 1,224,638
2013	185,000	952,425	1,137,425
2014	180,000	939,938	1,119,938
2015	225,000	927,787	1,152,787
2016	300,000	912,600	1,212,600
2017-2021	1,665,000	4,236,638	5,901,638
2022-2026	2,440,000	3,599,775	6,039,775
2027-2031	3,280,000	2,655,450	5,935,450
2032-2036	5,835,000	1,395,563	7,230,563
	\$ 14,365,000	\$ 16,589,813	\$ 30,954,813

2010 Subordinate Limited Tax General Obligation Bonds – On April 21, 2010, the District issued \$11,119,000 of Taxable Subordinate Limited Tax Bonds (Series 2010 bonds) to the Developer, which were used to pay off the capital and service obligations owed to Headwaters Metropolitan District. Headwaters Metropolitan District was then able to reduce the notes to the Developer by the same amount. The bonds bear interest at the rate of 6.75%, payable annually on December 15, and a maturity date of December 15, 2049. The Bonds do not have a set maturity schedule as principal and interest is due and payable based on available funding by the District each year. The entire principal amount is therefore shown in 2049 in the schedule below. To the extent the pledged revenues of the District are in excess of the annual debt service requirements of the Series 2006 Bonds, such funds shall be applied first to interest and then to principal of the Series 2010 Bonds. In the event that the remaining pledged revenues are insufficient to pay the then due interest on the Series 2010 Bonds, such interest shall accrue and compound annually each December 15th at the same 6.75% rate. Any amounts, including both principal and interest, which remain unpaid as of December 15, 2049 shall be deemed fully discharged and the District shall have no further obligation related to the Series 2010 Bonds. Accrued interest at December 31, 2011 was \$1,306,156.

Annual debt service requirements to maturity for the Series 2010 bonds are shown below. However, since the bonds are only paid as funds become available, the timing and total amounts paid will likely vary from the schedule, which assumes all payments are able to be made and on a timely basis. The interest amount shown for 2012 includes accrued interest owed as of December 31, 2011, however, no payments have been budgeted for 2012.

**GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
Notes to Financial Statements
December 31, 2011**

3. Detailed notes concerning the funds (continued)

Long-term debt (continued)

	Principal		Interest		Total
2012	\$ --		\$ 2,089,618		\$ 2,089,618
2013	--		783,462		783,462
2014	--		783,462		783,462
2015	--		783,462		783,462
2016	--		783,462		783,462
2017-2021	--		3,917,311		3,917,311
2022-2026	--		3,917,311		3,917,311
2027-2031	--		3,917,311		3,917,311
2032-2036	--		3,917,311		3,917,311
2037-2041	--		3,917,311		3,917,311
2042-2046	--		3,917,310		3,917,310
2047-2049	11,119,000		2,350,386		13,469,386
	\$ 11,119,000		\$ 31,077,716		\$ 42,196,716

Debt authorization

In 2003 and 2004, a majority of the qualified electors of the District authorized the issuance of up to \$104,000,000 in general obligation bonds to finance the improvements as set forth in the Bond Offering Statement. During 2011, the District approved a resolution to reduce the remaining authorization by half of the previous balance. As of December 31, 2011, the amount of debt authorized by the District's electorate but unissued was \$39,078,000 for improvements.

4. Significant agreements

Service Plan - The service plan dated May 2003 was approved by the Town of Granby on July 22, 2003. The service plan contemplated the creation of two separate districts designating Granby Ranch Metropolitan District (GRMD) as the "taxing" district and Headwaters Metropolitan District (HMD) as the "service" district. Under the plan, HMD is to construct, manage and operate public facilities and services throughout the development. GRMD is to produce property taxes and other revenue sufficient to pay the costs of operations and debt service expenditures incurred for the improvement of public infrastructure. The use of a dual district structure provides for the issuance of bonds in a timely manner that is consistent with the construction of development improvements when needed. The service plan also outlined a financial plan for the districts entitling HMD to all taxing district revenues in order to pay all costs associated with the operations and management of the development.

4. Significant agreements (continued)

Intergovernmental Agreement (IGA) with the Town of Granby - On December 9, 2003, the District and Headwaters Metropolitan District (HMD), acting jointly, entered into an agreement with the Town of Granby in an effort to promote the coordinated development of the Districts. The agreement was amended May 20, 2005 to increase the aggregate bonded debt limit to \$64,000,000. The agreement was further amended April 11, 2006 to outline the street maintenance and transportation mill levy. On February 26, 2008, the Intergovernmental Agreement between the Town of Granby and the District, HMD, and Granby Ranch Nos. 2-8 was executed. This IGA superseded and replaced the prior IGA and amendments in their entirety. The agreement states that all infrastructure and improvements will be designed and constructed in accordance with Town standards. As defined by the service plan, HMD has the primary responsibility for meeting the Town's standards. All streets, roadways, traffic and safety protection, transportation, parks and recreation, storm-water drainage, mosquito control and non-potable water facilities are to be owned, maintained, and operated by HMD. The sanitary sewer and potable systems will be conveyed to the Town of Granby or Granby Sanitation District, upon acceptance.

If the Town determines the Districts are not operating or maintaining any Street Improvement in conformity with this agreement, the Town may cure the nonconforming condition and receive reimbursement for related costs from the District.

The agreement limits the aggregate bonded debt amount to \$94,250,000 for the Districts. It also limits the maximum mill levy to 50.000 mills, adjusted for the change in the ratio of actual valuation to assessed valuation from 2003 to the current year. With this adjustment, the mill levy of the District was 53.113 mills in 2011.

Master Intergovernmental Agreements with Headwaters Metropolitan District – On June 1, 2006, HMD and the District entered into the District Facilities Construction and Service Agreement with HMD as the “Operating” district and the District as the “Taxing” district. This agreement terminated and replaced the Master Intergovernmental Agreement entered into by the District and HMD on December 10, 2003. The agreement is to coordinate the financing, processing of construction, and operation and maintenance of the development of public infrastructure in Granby Ranch. The districts are empowered to enter into contracts and agreements with one another to provide intergovernmental services and facilities and the agreement basically provides that HMD will construct the public infrastructure in the Districts and that GRMD and the other taxing districts will ultimately pay the cost of constructing those improvements.

Certain improvements such as water and sanitary sewer improvements will be conveyed to the Town of Granby and other improvements such as roads, roadway landscaping and drainage improvements will be operated and maintained by HMD. The cost of operation and maintenance of the improvements owned by HMD will ultimately be paid by the taxing districts in Granby Ranch. As the taxing districts have the financial ability to issue bonds, they have an obligation to issue bonds, the proceeds of which will be used to pay the cost of constructing the infrastructure.

4. Significant agreements (continued)

The consolidated service plan for the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8) was approved by the Town of Granby on September 25, 2007. The District's management expects that similar master intergovernmental agreements will be entered into between HMD and the new taxing districts. On September 17, 2008, the First Amended and Restated District Facilities Construction and Service Agreement was entered into. It superseded and replaced the prior agreement in its entirety. This new agreement included the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8). On April 21, 2010, in conjunction with the Exclusion Agreement (see below), the District and HMD reverted back to the 2006 Agreement with certain revisions.

The District entered into an Exclusion Agreement as of April 21, 2010 to document how the District would exclude property from its boundaries and provide for future maintenance and operations of the community. Per the terms of the agreement, certain property owned by the Developer and all of the roadways were excluded from the District and included into another financing District which was ultimately determined to be Granby Ranch Metropolitan District No. 8. Such property was excluded after the issuance of the Series 2010 Bonds, therefore making the excluded property responsible for its respective share of the annual debt service requirement for both the Series 2006 and Series 2010 Bonds.

The agreement sets forth the understanding that upon the issuance of the Series 2010 Bonds, the District will have fulfilled all reimbursement obligations to Headwaters Metropolitan District (HMD).

In accordance with the Operations Fee Resolution, the District will impose an Operations Fee in the event of a deficiency in the Improvement Operations Budget and Cure Amounts, as defined in the agreement. The excluded property shall not be liable for the Operations Fee or any property taxes levied by the District for operating costs of the District.

The agreement also states the 2008 Master IGA will be repudiated and therefore the District will revert to the terms of the 2006 Master IGA with HMD, except the 2006 Master IGA will become subject to annual budgeting and appropriation and can be terminated for the ensuing year. HMD will continue to provide all general administrative services, operation and maintenance services, and facilities for the District. The District will impose property taxes or fees, rates, tolls, or charges to fund the O&M costs which will allow HMD to provide, operate, and maintain the facilities.

During 2011, since the entire mill ley of the District was pledged towards debt service, the Developer contributed funds to HMD to cover the shortfall in funding to avoid having the District implement an Operations Fee. It is anticipated that the Developer will also contribute funds to HMD to cover such shortfalls in 2012. In the future, it is likely the District will be required to either increase the property tax mill levy rate, charge an Operations Fee to cover such shortfall, or request contributions or advances from the developer.

4. Significant agreements (continued)

Intergovernmental Funding Agreement with SolVista Metropolitan District – On June 1, 2006, the District entered into an intergovernmental funding agreement with SolVista Metropolitan District (SVMD) whereby GRMD contributed \$1,212,693 of its 2006 bond proceeds to SVMD which SVMD used to repay its obligation to the SolVista developer. In exchange, SVMD agreed to pay GRMD's Bond Trustee all revenues generated as a result of the of the SVMD mill levy, with the exception of the portion of the specific ownership taxes on motor vehicles imposed by the State of Colorado and net of annual operating costs as defined by the agreement. SVMD agreed to levy 25 mills on all the taxable property within SVMD through 2025 (for collection in 2026). The agreement terminates on the earlier of: (i) the date of which all bonds issued by GRMD have been defeased; or (ii) twenty years after the date on which the 2006 bonds were issued by GRMD. During 2011, SVMD paid \$39,147 to the GRMD bond trustee, pursuant to the agreement.

5. Other information

Commitments and contingencies

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and its legal representatives have disclosed that there are no material outstanding claims against the District at December 31, 2011.

Related parties

During 2011, a majority of the members of the Board of Directors of the District were employees or had substantial business interest with the developer.

Risk management

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

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official liability, and 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 property, general liability and public official's liability, coverage. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. 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. No distributions were made during the year ended December 31, 2011.

5. Other information (continued)

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, and 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 increase 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). Local governments are not allowed to use emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

6. Reconciliation of government-wide financial statements and fund financial statements

The Governmental Funds - Balance Sheet/Statement of Net Assets includes an adjustments column. The adjustments have three elements: 1) bond issuance costs have been capitalized and are being amortized over the lives of the related bonds; 2) long-term liabilities, including bonds payable, and accrued interest payable not due and payable in the current period are not reported in the funds; and 3) amounts reported as fund balance have been reclassified for inclusion in Net Assets.

The Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have three elements: 1) amortization expense on the bond issuance costs are not recorded in the fund statements; 2) the repayment of long-term debt (service costs) consumes current financial resources of the District and is recorded in the governmental funds; and 3) excess of revenues over expenditures has been reclassified as Change in Net Assets.

OTHER SUPPLEMENTARY INFORMATION

GRANBY RANCH METROPOLITAN DISTRICT
TOWN OF GRANBY, COLORADO
DEBT SERVICE FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Positive (Negative) Variance
Revenues:			
Property taxes	\$ 1,102,857	\$ 1,105,005	\$ 2,148
Specific ownership taxes	41,909	37,876	(4,033)
Payment in lieu of taxes	58,086	50,719	(7,367)
Capital facilities fees	--	104,158	104,158
Contributions from SolVista Metropolitan District	39,848	39,147	(701)
Interest income	11,119	16,367	5,248
Interest income - GIC Settlement	--	140,483	140,483
Total revenues	1,253,819	1,493,755	239,936
Expenditures:			
Bond principal	210,000	210,000	--
Bond interest	983,813	983,813	--
Paying agent fees	2,500	2,150	350
Treasurer's fees	55,143	55,403	(260)
Total expenditures	1,251,456	1,251,366	90
Excess of revenues over expenditures	2,363	242,389	240,026
Fund balance - beginning of year	4,447,786	4,467,712	19,926
Fund balance - end of year	\$ 4,450,149	\$ 4,710,101	\$ 259,952

See independent auditors' report