

**CENTRAL MARKSHEFFEL
METROPOLITAN DISTRICT**

**Management's Discussion and Analysis
and Financial Statements**

For the Year Ended December 31, 2005

And

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Central Marksheffel Metropolitan District

We have audited the accompanying financial statements of the governmental activities and each major fund of Central Marksheffel Metropolitan District (the District) as of and for the year ended December 31, 2005. 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. 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, such financial statements present fairly, in all material respects, the financial position of the governmental activities and each major fund of Central Marksheffel Metropolitan District at December 31, 2005 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 1 to the financial statements, the District is in the start-up phase and is dependent upon continued growth within the District and the resulting development fees and property taxes. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


May 12, 2006

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended December 31, 2005. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2005

- In 2005 net assets decreased by \$549,805 (or approximately 3.8% percent) when compared to 2004.
- Total revenues increased to \$890,792 during 2005, a 397% percent increase from 2004.
- Total operating expenses increased to \$8.4 million in 2005 from \$2.1 million in 2004.
- Net capital assets were \$8.6 million in 2005 compared to \$1.4 million in 2004.
- Long-term debt was \$14,450,000 for 2005.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District are accounted for on a flow of economic resources measurement focus. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America. The District's basic financial statements include:

- **Statement of net assets** – reports the District's current financial resources (short-term spend-able resources) with capital assets and long-term obligations. (See page 5).
- **Statement of revenues, expenses and changes in fund balances-governmental funds** - reports the District's operating and non-operating expenses and governmental funds. (See page 8).

STATEMENT OF NET ASSETS:

Assets, liabilities and net assets for 2005 compared with 2004 were as follows:

	2005	2004	Percent Increase (Decrease)
CURRENT ASSETS			
Cash	\$ 5,654,796	\$ 13,610,462	58%
Property taxes receivable	207,276		100%
Interest receivable	<u>6,827</u>	<u>22,078</u>	(69)%
Total current assets	5,868,899	13,632,540	(57)%
Capital assets	<u>8,634,950</u>	<u>1,421,114</u>	508%
TOTAL	<u>\$ 14,503,849</u>	<u>\$ 15,053,654</u>	(4)%

CURRENT LIABILITIES

Accounts payable	427,461	809,339	(47)%
Accrued interest	88,417	88,417	
Deferred property tax revenue	207,276		100%
Current portion — bonds payable	200,000		100%
Advances from related parties	<u>109,197</u>	<u>159,197</u>	(31)%
Total current liabilities	1,032,351	1,056,953	(2)%
BONDS PAYABLE	<u>14,450,000</u>	<u>14,650,000</u>	(1)%
TOTAL LIABILITIES	<u>15,482,351</u>	<u>15,706,953</u>	(1)%
NET ASSETS			
Restricted for debt service, net of related debt	812,728	130,152	524%
Unrestricted accumulated deficit	<u>(1,791,230)</u>	<u>(783,451)</u>	(129)%
Total accumulated deficit	<u>(978,562)</u>	<u>(653,299)</u>	(50)%
TOTAL	<u>\$ 14,503,849</u>	<u>\$ 15,053,654</u>	(4)%

REVIEW OF REVENUES:

Revenue and expenses for 2005 compared with 2004 are as follows:

	2005	2004	Percent Increase (Decrease)
REVENUE			
Charges for services	\$ 499,439	\$ 130,152	284%
Property taxes	98,723		100%
Interest	<u>292,630</u>	<u>48,904</u>	498%
Total revenues	<u>\$ 890,792</u>	<u>\$ 179,056</u>	397%

REVIEW OF EXPENSES:

	2005	2004	Percent Increase (Decrease)
Bond issuance costs		\$ 443,000	(100)%
Capital outlay	\$ 7,213,836	1,421,114	408%
Bond interest	1,062,125	179,971	490%
Professional fees	136,386	112,181	22%
Other interest	4,274	2,520	70%
Miscellaneous	<u>13,210</u>	<u>6,266</u>	111%
Total Expenditures	<u>\$ 8,429,831</u>	<u>\$ 2,165,052</u>	289%

The expenses of \$8.4 million were mainly due to construction of the bridge on Marksheffel Road, channel work, road improvements and interest payments on the bond funds.

Debt Outstanding:

The District issued Bond Series 2004 for \$14,650,000 in Bond Funds. The schedule (for details see pages 15-16) reflects the payments over the next 20 years using the annual mill levy, infrastructure development fees, building permit fees and platting fees.

Economic and Other Factors:

The economy in Colorado Springs continues to grow. New construction and increase in property values has increased the District's property assessed valuation.

Additional Financial Information:

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in the report or wish to request additional financial information, please contact the Central Marksheffel Metropolitan District, Terry Schooler, District Manager at 520 East Colorado Avenue, Colorado Springs, Colorado 80903.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF NET ASSETS DECEMBER 31, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 5,654,796
Property taxes receivable	207,276
Interest receivable	<u>6,827</u>
Total current assets	5,868,899

NONCURRENT ASSETS

Capital assets	<u>8,634,950</u>
Total assets	<u>\$ 14,503,849</u>

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES

Accounts payable	427,461
Accrued interest	88,417
Deferred property tax revenue	207,276
Current portion — bonds payable	200,000
Advances from related parties	<u>109,197</u>
Total current liabilities	1,032,351

NONCURRENT LIABILITIES — BONDS PAYABLE	<u>14,450,000</u>
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Total liabilities	<u>15,482,351</u>
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NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	—
Restricted for debt service	812,728
Unrestricted accumulated deficit	<u>(1,791,230)</u>
Total net deficit	<u>(978,502)</u>

Total liabilities and net assets (deficit)	<u>\$ 14,503,849</u>
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See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2005

		Program Revenues		
	Expenses	Charges for Services	Capital Grants and Contributions	Net Revenue and Change in Net Assets of Primary Government — Governmental Activities
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT				
General government	\$ 153,870	\$ 598,162		\$ 444,292
Interest on long-term debt	<u>1,062,125</u>	<u> </u>	<u> </u>	<u>(1,062,125)</u>
Total primary government	<u>\$ 1,215,995</u>	<u>\$ 598,162</u>	<u>\$ —</u>	(617,833)
General Revenues:				
Interest revenue				<u>292,630</u>
CHANGE IN NET ASSETS				<u>(325,203)</u>
NET ASSETS — Beginning of year, as originally stated				(216,325)
Prior period adjustment				<u>(436,974)</u>
NET ASSETS — Beginning of year, restated				<u>(653,299)</u>
NET ASSETS — End of year				<u>\$ (978,502)</u>

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

BALANCE SHEET — GOVERNMENTAL FUNDS DECEMBER 31, 2005

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash — restricted		\$ 3,305,485	\$ 2,349,311	\$ 5,654,796
Property taxes receivable			207,276	207,276
Interest receivable		6,827		6,827
Due from other funds			728,314	728,314
Total assets	<u>\$ —</u>	<u>\$ 3,312,312</u>	<u>\$ 3,284,901</u>	<u>\$ 6,597,213</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable		\$ 427,461		\$ 427,461
Deferred property tax revenue			207,276	207,276
Advances from related parties		109,197		109,197
Due to other funds		728,314		728,314
Total liabilities		<u>1,264,972</u>	<u>207,276</u>	<u>1,472,248</u>
FUND BALANCES				
Reserved for debt service			\$ 2,277,728	2,277,728
Reserved for capital projects		3,305,485		3,305,485
Unreserved fund balance (deficit)		(1,258,145)	799,897	(458,248)
Total fund balances		<u>2,047,340</u>	<u>3,077,625</u>	5,124,965
Total liabilities and fund balances	<u>\$ —</u>	<u>\$ 3,312,312</u>	<u>\$ 3,284,901</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	8,634,950
Liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(14,650,000)
Accrued interest payable	(88,417)

Net assts (deficit) of government activities	<u>\$ (978,502)</u>
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See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE				
Charges for services			\$ 499,439	\$ 499,439
Property taxes			98,723	98,723
Interest		\$ 256,890	35,740	292,630
Total revenues		<u>256,890</u>	<u>633,902</u>	<u>890,792</u>
EXPENDITURES				
Capital outlay		7,213,836		7,213,836
Bond interest			1,062,125	1,062,125
Professional fees	\$ 136,386			136,386
Other interest	4,274			4,274
Miscellaneous	<u>5,614</u>	<u>4,911</u>	<u>2,685</u>	<u>13,210</u>
Total expenditures	<u>146,274</u>	<u>7,218,747</u>	<u>1,064,810</u>	<u>8,429,831</u>
DEFICIT OF REVENUES OVER EXPENDITURES	<u>(146,274)</u>	<u>(6,961,857)</u>	<u>(430,908)</u>	<u>(7,539,039)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	205,899		845,712	1,051,611
Transfers out	<u> </u>	<u>(1,051,611)</u>	<u> </u>	<u>(1,051,611)</u>
Total other financing sources (uses)	<u>205,899</u>	<u>(1,051,611)</u>	<u>845,712</u>	<u> </u>
NET CHANGE IN FUND BALANCES	59,625	(8,012,468)	414,804	(7,539,039)
FUND BALANCES — Beginning of year	<u>(59,625)</u>	<u>10,060,808</u>	<u>2,662,821</u>	<u>12,664,004</u>
FUND BALANCES — End of year	<u>\$ —</u>	<u>\$ 2,047,340</u>	<u>\$ 3,077,625</u>	<u>\$ 5,124,965</u>

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

RECONCILIATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2005

NET CHANGE IN GOVERNMENTAL FUND BALANCES \$ (7,539,039)

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

Governmental funds report capital outlays as expenditures;
however, in the statement of activities, the cost of those
assets is allocated to the projects as construction in process 7,213,836

CHANGE IN NET ASSETS OF GOVERNMENTAL \$ (325,203)
ACTIVITIES

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

— BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2005

	Original/ Final Budget ⁽¹⁾	Actual	Variance
REVENUE	\$ 11,750	\$ —	\$ (11,750)
EXPENDITURES			
Professional fees	50,400	136,386	(85,986)
Other interest		4,274	(4,274)
Insurance	1,500	1,238	262
Miscellaneous	<u>1,727</u>	<u>4,376</u>	<u>(2,649)</u>
Total	<u>53,627</u>	<u>146,274</u>	<u>(92,647)</u>
Deficit of revenues over expenditures	<u>(41,877)</u>	<u>(146,274)</u>	<u>(104,397)</u>
OTHER FINANCING SOURCES			
Transfers in	<u>12,877</u>	<u>205,899</u>	<u>193,022</u>
Change in fund balance	<u>\$ (29,000)</u>	<u>\$ 59,625</u>	<u>\$ 88,625</u>

⁽¹⁾ Original and final budget are the same; there were no amendments to the 2005 budget.

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

CAPITAL PROJECTS FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

— BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2005

	Original/ Final Budget ⁽¹⁾	Actual	Variance
REVENUE — INTEREST	\$ —	\$ 256,890	\$ 256,890
EXPENDITURES			
Capital outlay	9,278,002	7,213,836	2,064,166
Miscellaneous	<u>105,600</u>	<u>4,911</u>	<u>100,689</u>
Total	<u>9,383,602</u>	<u>7,218,747</u>	<u>2,164,855</u>
Deficit of revenues over expenditures	<u>(9,383,602)</u>	<u>(6,961,857)</u>	<u>2,421,745</u>
OTHER FINANCING USES			
Transfers out	<u> </u>	<u>(1,050,611)</u>	<u>(1,050,611)</u>
Change in fund balance	<u>\$ (9,383,602)</u>	<u>\$ (8,012,468)</u>	<u>\$ 1,371,134</u>

⁽¹⁾ Original and final budget are the same; there were no amendments to the 2005 budget.

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

DEBT SERVICE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

— BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2005

	Original/ Final Budget ⁽¹⁾	Actual	Variance
REVENUE			
Charges for services	\$ 520,962	\$ 499,439	\$ (21,523)
Property taxes	82,249	98,723	16,474
Interest	<u> </u>	<u>35,740</u>	<u>35,740</u>
Total	<u>603,211</u>	<u>633,902</u>	<u>30,691</u>
EXPENDITURES			
Bond interest	1,062,125	1,062,125	
Miscellaneous	<u>2,153</u>	<u>2,685</u>	<u>532</u>
Total	<u>1,064,278</u>	<u>1,064,810</u>	<u>(532)</u>
Deficit of revenues over expenditures	<u>(461,067)</u>	<u>(430,908)</u>	<u>30,159</u>
OTHER FINANCING SOURCES			
Transfers in	<u>—</u>	<u>845,712</u>	<u>845,712</u>
Change in fund balances	<u>\$ (461,067)</u>	<u>\$ 414,804</u>	<u>\$ 875,871</u>

⁽¹⁾ Original and final budget are the same; there were no amendments to the 2005 budget.

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Central Marksheffel Metropolitan District of El Paso County, Colorado (the District) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies consistently applied in the preparation of the District's financial statements.

The District was organized to construct public improvements including road and bridge improvements, landscaping, sanitary and storm sewer, water systems, park and recreation, channel and other drainage improvements needed for the area.

Reporting Entity — The District was organized on December 4, 2002 and is governed by an elected Board of Directors pursuant to provisions of the Colorado Special District Act. The District follows the Governmental Accounting Standard Board (GASB) accounting pronouncements that provide guidance for determining which governmental activities, organizations and functions should be included within the 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, the appointment by the primary entity of a voting majority of the component organization's governing body, the ability of the primary entity to impose its will on the component organization, a potential for the component organization to provide specific financial benefits or burdens and fiscal dependency of the component organization.

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

Basis of Presentation — The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the District as a going concern. As of December 31, 2005, the District has a net deficit of \$(565,634). The District is in the start-up phase and is dependent upon continued growth within the District and the resulting development fees and property taxes.

Government-wide and Fund Financial Statements — The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type-activities, which rely to a significant extent on fees and charges for support.

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.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Basis of Accounting — The financial statements of the District are accounted for on a flow of economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Program revenue per the statement of activities consists primarily of facilities fees under the category charges for services. The fees are imposed on residential and non-residential property within the District when building permits are applied for with the County. Also included in program revenue are platting fees as well as property taxes collected by the County and remitted to the District.

Fund Accounting — The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

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

The District reports the following major governmental funds:

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

Capital Projects Fund — The capital projects fund accounts for the public improvements made in the District.

Debt Service Fund — The debt service fund accounts for the servicing of general long-term debt and revenues generated by the District that are required to be used in payment of long-term debt.

Budgets — In the fall, the District manager is required to submit to the Board of Directors a budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at the District to obtain taxpayer comments. Prior to December 31, the budget is legally enacted by the Board. The manager is authorized to transfer budgeted amounts between line items of the District; however, any revisions that alter the total expenditures of the District must be approved by the Board of Directors. During 2005, actual general fund and debt service fund operating expenses exceeded budgeted general fund and debt service fund operating expenses.

Public Improvements — All development costs in excess of \$500 which have a useful life of greater than one year and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the lives of assets are capitalized. Public improvements are recorded at cost.

The assets making up the public improvements have not yet been placed in service and accordingly, depreciation is not being recorded.

Cash and Cash Equivalents — The District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents if not restricted by the Board.

Fair Value of Financial Instruments — The District’s financial instruments include cash and cash equivalents, accounts payable, and advances payable. The District estimates that the fair value of all financial instruments at December 31, 2005 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.

Use of Estimates — Preparation of the District’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

2. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to recognize bond issuance costs as an expenditure of the primary government. The effect was to decrease net assets as of January 1, 2005 as reported on the Statement of Activities by \$436,974.

3. CAPITAL ASSETS

Capital assets consist of construction in process of road and bridge improvements, sidewalks, water and wastewater, drainage and landscaping.

	Balance at January 1, 2005	Increase	Decrease	Balance at December 31, 2005
Construction in process	<u>\$1,421,114</u>	<u>\$ 7,213,836</u>	<u>\$ —</u>	<u>\$ 8,634,950</u>

4. GENERAL OBLIGATION LIMITED TAX BONDS

A summary of bonds payable is as follows:

	Balance at January 1, 2005	Increase	Decrease	Balance at December 31, 2005	Amounts Due Within One Year
General Obligation Limited Tax Bonds Series 2004 — \$14,650,000 originally issued with 7.25% interest	<u>\$ 14,650,000</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 14,650,000</u>	<u>\$ 200,000</u>

Payment of the principal and interest on the bonds will be from facility fees as the District develops. After the majority of properties in the District have been sold, homes, commercial facilities and other improvements have been constructed and the District’s tax base has had time to develop, the source of

payment of debt service on the Bonds will be primarily paid from the limited mill levy to be levied on the taxable property within the District.

The following is a summary of mandatory sinking fund payments and interest requirements on the Bonds:

Year Ending December 31,	Sinking Fund	Interest	Total
2006	\$ 200,000	\$ 1,062,125	\$ 1,262,125
2007	200,000	1,047,625	1,247,625
2008	200,000	1,033,125	1,233,125
2009	200,000	1,018,625	1,218,625
2010	200,000	1,004,125	1,204,125
2011-2015	1,175,000	4,794,063	5,969,063
2016-2020	2,240,000	4,237,988	6,477,988
2021-2025	3,955,000	3,196,888	7,151,888
2026-2029	<u>6,280,000</u>	<u>1,328,199</u>	<u>7,608,199</u>
Total	<u>\$ 14,650,000</u>	<u>\$ 18,722,763</u>	<u>\$ 33,372,763</u>

5. PURCHASE COMMITMENTS

During 2005, the District entered into several agreements with contractors for construction to be completed during the first half of 2006. The District makes payments on the contracts when progress billings are received. At December 31, 2005, the District had not yet been billed for \$3,290,622 associated with these contracts and related change orders.

6. INTERFUND TRANSFERS

During 2005, \$845,712 and \$205,899 was transferred from the Capital Project Funds to the Debt Service Fund and General Fund, respectively. The transfers were made to meet expenditures within these funds.

7. INTERGOVERNMENTAL AGREEMENT

In June 2004, the District entered into a Transportation Impact Fee and Public Improvement Agreement with El Paso County for the purpose of the District securing fair and equitable participation in the Marksheffel improvements from out-of-District properties identified within the area serviced by the improvements. Under the agreement, the County is to prepare an Off-Site Road Study and Plan to formalize and adopt a methodology for determining the fair and equitable financial participation in the Marksheffel improvements by the service area property, the result of which will be for the County to impose a Transportation Impact Fee on any service area property required to go through the subdivision process. Such fees will represent fair and equitable share of costs attributable to the out-of-District property as determined by the County, and will be remitted to the District by the end of the month following their collection.

8. ADVANCES DUE RELATED PARTIES

Certain members of the Board of Directors of the District, and entities controlled by the Board members, have advanced funds to the District. The advances are short-term, unsecured, and non interest bearing.

9. DEPOSITS

The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government in Colorado deposit cash in eligible public depositories as determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA which 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 at least equal to 102% of the aggregate uninsured deposits.

At December 31, 2005, the carrying amount of the District's cash was \$5,654,796. Bank balances of \$71,583 were covered by federal depository insurance. The remaining \$5,583,213 is required by Colorado Statute to be collateralized with securities held by the pledging financial institution's trust department in the District's name.

10. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District carries commercial insurance for these risks of loss. There were no claims resulting from these risks that exceeded commercial insurance coverage during 2005.

11. TAX, SPENDING AND DEBT LIMITATIONS

In November 1992 Colorado voters approved Amendment 1 to the state Constitution which is commonly known as the Taxpayer's Bill of Rights or the TABOR Amendment. The amendment applies to all units of local governments and limits taxes, spending, revenue, and multi-year debt (excepting bond refundings to lower interest rates and adding employees to pension plans). The District believes that it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions may not become fully understood without judicial review.