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CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

Management's Discussion and Analysis and Financial Statements

For the Year Ended December 31, 2006

And

Independent Auditors' Report

stockman kast ryan + co LLP

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, 2006. 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, 2006 and the respective budgeting comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 4 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.

Stockman Kast Ryan + Co., LLP

September 14, 2007

Certified Public Accountants and Business Advisors | 102 N. Cascade Avenue, Suite 400, Colorado Springs, CO 80903

www.skrco.com telephone: (719) 630-1186
facsimile: (719) 630-1187

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, 2006. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2006

- In 2006 assets increased by $194,816 or 1% when compared to 2005.
- Total revenues increased to $1,431,022 during 2006, a 61% increase from 2005.
- Total capital expenses decreased to $3.7 million in 2006 from $8.4 million in 2005.
- Net capital assets were $10.9 million in 2006 compared to $8.6 million in 2005.
- Long-term debt was reduced to $14,250,000 in 2006 from $14,450,000 in 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 2006 compared with 2005 were as follows:

	2006	2005	Percent Increase (Decrease)
CURRENT ASSETS			
Cash and investments	$ 3,304,249	$ 5,654,796	(41) %
Property taxes receivable	395,066	207,276	90 %
Interest receivable		6,827	(100) %
Total current assets	3,699,315	5,868,899	(37) %
Capital assets	10,999,350	8,634,950	24 %
TOTAL	$ 14,698,665	$ 14,503,849	1 %

CURRENT LIABILITIES			
Accounts payable	388,148	427,461	(9) %
Accrued interest	87,300	88,417	(1) %
Deferred property tax revenue	395,066	207,276	90 %
Current portion — bonds payable	200,000	200,000	
Advances from related parties	109,197	109,197	
Total current liabilities	1,179,711	1,032,351	14 %
BONDS PAYABLE	14,250,000	14,450,000	(1) %
TOTAL LIABILITIES	15,429,711	15,482,351	
NET ASSETS			
Restricted for debt service	545,042	812,728	(33) %
Unrestricted accumulated deficit	(1,276,088)	(1,791,230)	(29) %
Total accumulated deficit	(731,046)	(978,502)	(25) %
TOTAL	$ 14,698,665	$ 14,503,849	1 %

The cash decreased due to the construction of the bridge, channel, and road improvements on Marksheffel hence the increase in capital assets. The majority of infrastructure was completed in 2006 with only a few minor construction issues carried over into 2007.

REVIEW OF REVENUES:

Revenue and expenses for 2006 compared with 2005 are as follows:

	2006	**2005**	**Percent Increase (Decrease)**
REVENUE			
Charges for services	$ 986,803	$ 499,439	97 %
Property taxes	263,694	98,723	167 %
Interest	180,525	292,630	(38) %
Total revenues	$ 1,431,022	$ 890,792	61 %

The revenues increased primarily because of the collection of building permit fees and property taxes. The interest decreased due to the construction of infrastructure and the depletion of bond funds for the construction.

REVIEW OF EXPENSES:

	2006	**2005**	**Percent Increase (Decrease)**
Capital outlay	$ 2,461,437	$ 7,213,836	(66) %
Bond interest	1,062,125	1,062,125	
Bond principal	200,000		100 %
Professional fees	11,000	136,386	(92) %
Other interest		4,274	(100) %
Insurance	1,382	1,238	12 %
Miscellaneous	13,139	11,972	10 %
Total Expenditures	$ 3,749,083	$ 8,429,831	(55) %

The expenses of $3.7 million were a decrease of approximately 56% due to the near completion of the capital outlay.

Debt Outstanding:
The District remains with a long-term debt of $14,650,000 for Bond Series 2004. The schedule (for details see pages 16 and 17) 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 albeit slowly. New construction and increase in property values has increased the District's property assessed valuation. The residential construction is nearly at an end, but the commercial construction continues to grow steadily.

Additional Financial Information:
This financial report is designed to provide the District's customers, investors and other interested parties with on 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 455 E. Pikes Peak Avenue, Suite 100, Colorado Springs, Colorado 80903.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

ASSETS	
CURRENT ASSETS	
Cash — restricted	$ 3,304,249
Property taxes receivable	395,066
Total current assets	3,699,315
NONCURRENT ASSETS	
Capital assets	10,999,350
Total assets	$ 14,698,665
LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES	
Accounts payable	$ 388,148
Accrued interest	87,300
Deferred property tax revenue	395,066
Current portion — bonds payable	200,000
Advances from related parties	109,197
Total current liabilities	1,179,711
NONCURRENT LIABILITIES — BONDS PAYABLE	14,250,000
Total liabilities	15,429,711
NET ASSETS (DEFICIT)	
Invested in capital assets, net of related debt	
Restricted for debt service	545,042
Unrestricted accumulated deficit	(1,276,088)
Total net deficit	(731,046)
Total liabilities and net assets (deficit)	$ 14,698,665

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net Revenue and Change in Net Assets (Deficit) of Primary Government — Governmental Activities
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT				
General government	$ 122,558	$ 1,250,497		$ 1,127,939
Interest on long-term debt	1,061,008			(1,061,008)
Total primary government	$ 1,183,566	$ 1,250,497	$ —	66,931
General Revenues:				
Interest revenue				180,525
CHANGE IN NET ASSETS (DEFICIT)				247,456
NET ASSETS (DEFICIT) — Beginning of year				(978,502)
NET ASSETS (DEFICIT) — End of year				$ (731,046)

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

BALANCE SHEET — GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash — restricted	$ 20,202	$ 874,191	$ 2,409,856	$ 3,304,249
Property taxes receivable	56,438		338,628	395,066
Total assets	$ 76,640	$ 874,191	$ 2,748,484	$ 3,699,315
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable		$ 388,148		$ 388,148
Deferred property tax revenue	$ 56,438		$ 338,628	395,066
Advances from related parties		109,197		109,197
Total liabilities	56,438	497,345	338,628	892,411
FUND BALANCES				
Reserved for debt service			2,010,042	2,010,042
Reserved for capital projects		874,191		874,191
Unreserved fund balance (deficit)	20,202	(497,345)	399,814	(77,329)
Total fund balances	20,202	376,846	2,409,856	2,806,904
Total liabilities and fund balances	$ 76,640	$ 874,191	$ 2,748,484	
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				10,999,350
Liabilities are not due and payable in the current period and therefore are not reported in the funds:				
Bonds payable				(14,450,000)
Accrued interest payable				(87,300)
Net assts (deficit) of government activities				$ (731,046)

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, 2006

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE				
Charges for services			$ 986,803	$ 986,803
Property taxes	$ 37,670		226,024	263,694
Interest		$ 65,782	114,743	180,525
Total revenues	37,670	65,782	1,327,570	1,431,022
EXPENDITURES				
Capital outlay		2,461,437		2,461,437
Bond interest			1,062,125	1,062,125
Bond principal			200,000	200,000
Professional fees	11,000			11,000
Insurance	1,382			1,382
Miscellaneous	5,086	3,153	4,900	13,139
Total expenditures	17,468	2,464,590	1,267,025	3,749,083
NET CHANGE IN FUND BALANCES	20,202	(2,398,808)	60,545	(2,318,061)
FUND BALANCES — Beginning of year		2,775,654	2,349,311	5,124,965
FUND BALANCES — End of year	$ 20,202	$ 376,846	$ 2,409,856	$ 2,806,904

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, 2006

NET CHANGE IN GOVERNMENTAL FUND BALANCES	$ (2,318,061)
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 over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $2,461,437 exceeded depreciation of $97,037 in the current period.	2,364,400
Payment of long-term debt is not reflected in the statement of activities; whereas in governmental funds it is reported as an expense	200,000
In the statement of activities, interest and changes are accrued on outstanding bonds; whereas, in governmental funds, they are reported when due	1,117
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 247,456

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, 2006

	Original Budget	Final Budget	Actual	Variance
REVENUE — PROPERTY TAXES	$ 31,388	$ 33,672	$ 37,670	$ 3,998
EXPENDITURES				
Professional fees	10,150	11,300	11,000	300
Insurance	1,600	1,821	1,382	439
Miscellaneous	9,056	9,953	5,086	4,867
Total	20,806	23,074	17,468	5,606
NET CHANGE IN FUND BALANCE	$ 10,582	$ 10,598	$ 20,202	$ 9,604

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, 2006

	Original Budget	Final Budget	Actual	Variance
REVENUE — INTEREST	$ —	$ 67,517	$ 65,782	$ (1,735)
EXPENDITURES				
Capital outlay	3,300,000	2,552,732	2,461,437	91,295
Miscellaneous		2,238	3,153	(915)
Total	3,300,000	2,554,970	2,464,590	90,380
NET CHANGE IN FUND BALANCE	$(3,300,000)	$(2,487,453)	$(2,398,808)	$ 88,645

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, 2006

	Original Budget	Final Budget	Actual	Variance
REVENUE				
Charges for services	$ 1,233,834	$ 1,078,640	$ 986,803	$ (91,837)
Property taxes	221,785	236,580	226,024	(10,556)
Interest		29,545	114,743	85,198
Total	1,455,619	1,344,765	1,327,570	(17,195)
EXPENDITURES				
Bond interest	1,062,125	1,062,125	1,062,125	
Bond principal		200,000	200,000	
Miscellaneous	5,109	5,545	4,900	645
Total	1,067,234	1,267,670	1,267,025	645
NET CHANGE IN FUND BALANCE	$ 388,385	$ 77,095	$ 60,545	$ (16,550)

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity —Central Marksheffel Metropolitan District of El Paso County, Colorado (the District)), a quasi-municipal corporation and political subdivision of the State of Colorado, was formed on December 4, 2002, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado. 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.

The District has no employees and all operations and administrative functions are contracted.

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

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 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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

The District has elected to follow Governmental Accounting Standards Board pronouncements in government-wide financial statements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

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

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 construction costs of public improvements undertaken and financed by the District.

Debt Service Fund — The debt service fund accounts for the servicing of general long-term debt and revenues generated and received 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.

Capital Assets — 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. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from twenty to forty years.

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 receivable, accounts payable, and advances payable. The District estimates that the fair value of all financial instruments at December 31, 2006 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.

Fund Equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are legally segregated or are not subject to future appropriations. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management.

The District considers all unreserved 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.

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. CASH AND INVESTMENTS

Cash is classified in the accompanying financial statements as follows as of December 31, 2006:

Statement of net assets:	
Cash	$ 3,304,249

Cash and investments as of December 31, 2006 consist entirely of deposits with financial institutions.

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 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 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.

At December 31, 2006, the carrying amount of the District's cash was $3,304,249. Bank balances of $200,000 were covered by federal depository insurance and $3,104,249 is required by Colorado Statutes to be collateralized with securities held by the pledging institution's trust department in the District's name.

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 and certain U.S. government agency securities
- Certain international 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
- Local government investment pools

As of December 31, 2006, the District had no investments.

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 is as follows:

	Balance at January 1, 2006	**Increase**	**Decrease**	**Balance at December 31, 2006**
Construction in process	$ 8,634,950	$ 2,461,437	$ (3,881,466)	$ 7,214,921
Roads and drainage		3,881,466		3,881,466
	8,634,950	6,342,903	(3,881,466)	11,096,387
Accumulated depreciation		(97,037)		(97,037)
Net capital assets	$ 8,634,950	$ 6,245,866	$ (3,881,466)	$ 10,999,350

4. GENERAL OBLIGATION LIMITED TAX BONDS

A summary of bonds payable for the year ended December 31, 2006 is as follows:

	Balance at January 1, 2006	**Increase**	**Decrease**	**Balance at December 31, 2006**	**Amounts Due Within One Year**
General Obligation Limited Tax Bonds Series 2004 — $14,650,000 originally issued with 7.25% interest	$ 14,650,000	$	$ 200,000	$ 14,450,000	$ 200,000

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
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	200,000	989,625	1,189,625
2012-2016	1,315,000	4,708,875	6,023,875
2017-2021	2,535,000	4,075,588	6,610,588
2022-2026	4,385,000	2,910,150	7,295,150
2027-2029	5,215,000	872,900	6,087,900
Total	$ 14,450,000	$ 17,660,638	$ 32,110,638

5. COMMITMENTS AND CONTINGENCIES

In December 2006, the District entered into a reimbursement agreement with a developer under which the District will reimburse the developer for the cost of water service extension improvements to be constructed that benefit the District and development within the District. Anticipated costs of $626,000 will potentially be reduced by any reimbursements actually received by the developer from other sources such as a neighboring metropolitan district with which a reimbursement agreement is being pursued. Once the obligation of the District is known, any outstanding obligation will accrue interest at six percent per annum. The commitment is subordinate to the District’s bond liability.

6. 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.

7. ADVANCES DUE RELATED PARTIES

An entity controlled by a Board member has advanced funds to the District. The advances are short-term, unsecured, and bear interest at 8%.

8. 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 balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2006, the District had no investment in capital assets, net of related debt.

Restricted assets include net assets that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has $545,042 of restricted net assets as of December 31, 2006.

As of December 31, 2006, the District had unrestricted net assets (deficit) of $($1,276,088).

9. RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be 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) as of December 31, 2006. 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.

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation 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.

10. 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, except Enterprise.

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

The District elected to be exempt from the TABOR provisions.

11. SUBSEQUENT EVENTS

Subsequent to December 31, 2006, the District entered into an agreement with a developer under which the District will reimburse the developer for construction costs related to the intersection of two highways for the benefit of the District. The reimbursement shall not exceed $1.3M plus interest of six percent per annum commencing upon full completion and full acceptance of the intersection improvements by the appropriate jurisdiction. Payments are subordinate to the District's bond liability. The District's liability under the agreement may be reduced by cost recovery proceeds pursuant to reimbursement agreements to be negotiated by the developer with adjacent property owners or through the County fair share reimbursement for improvements agreement with the adjacent property owners.