

**CENTRAL MARKSHEFFEL
METROPOLITAN DISTRICT**

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

For the Year Ended December 31, 2004

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, 2004. 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, 2004 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 its start-up year and is dependent upon advances from members of its Board of Directors for operating funds. 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.

As discussed in Note 1 to the financial statements, the District has adopted Governmental Accounting Standards (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of January 1, 2004.

The Management's Discussion and Analysis on pages 2 through 3 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedule of revenues, expenditures and changes in fund balance — budget and actual is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the District's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Stockman Kaut Ryan & Co. LLP

May 25, 2005

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, 2004. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2004

- This was the first year for Central Marksheffel Metropolitan District therefore we have nothing to compare.
- The District collected \$130,000 in facility fees.
- The District was issued a bond fund in the amount of \$14.6 million for construction, improvements and bond interest.

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 4).
- **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:

	2004
CURRENT ASSETS	
Cash	\$ 13,610,462
Interest receivable	<u>22,078</u>
Total current assets	13,632,540
Construction in process	1,421,114
Bond issuance costs — net	<u>436,974</u>
TOTAL	<u>\$ 15,490,628</u>
CURRENT LIABILITIES	
Accounts payable	809,339
Accrued interest	88,417
Advances from related parties	<u>159,197</u>
Total current liabilities	1,056,953
BONDS PAYABLE	<u>14,650,000</u>
TOTAL LIABILITIES	<u>15,706,953</u>

NET ASSETS	
Restricted for debt service, net of related debt	130,152
Unrestricted accumulated deficit	<u>(346,477)</u>
Total accumulated deficit	<u>(216,325)</u>
TOTAL	<u>\$ 15,490,628</u>

REVIEW OF REVENUES:

	2004
REVENUE	
Facility fees	\$ 130,152
Interest	<u>48,904</u>
Total revenues	<u>\$ 179,056</u>

REVIEW OF EXPENSES:

	2004
BOND ISSUANCE COSTS	
Bond issuance costs	\$ 443,000
Capital outlay	1,421,114
Bond interest	179,971
Professional fees	112,181
Other interest	2,520
Miscellaneous	<u>6,266</u>
Total Expenditures	<u>\$ 2,165,052</u>

The expenses were \$2.1 million mainly due to construction and the formation of Bond Series 2004.

Debt Outstanding:

The District issued Bond Series 2004 for \$14,650,000 in Bond Funds. The schedule (for details see page 12) 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

GOVERNMENT-WIDE STATEMENT OF NET ASSETS DECEMBER 31, 2004

ASSETS

CURRENT ASSETS

Cash	\$ 13,610,462
Interest receivable	<u>22,078</u>

Total current assets	13,632,540
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CONSTRUCTION IN PROCESS	1,421,114
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BOND ISSUANCE COSTS — NET	<u>436,974</u>
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Total assets	<u>\$ 15,490,628</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	809,339
Accrued interest	88,417
Advances from related parties	<u>159,197</u>

Total current liabilities	1,056,953
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BONDS PAYABLE	<u>14,650,000</u>
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Total liabilities	<u>15,706,953</u>
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NET ASSETS

Restricted for debt service, net of related debt	130,152
Unrestricted accumulated deficit	<u>(346,477)</u>

Total accumulated deficit	<u>(216,325)</u>
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Total liabilities and net assets	<u>\$ 15,490,628</u>
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See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

BALANCE SHEET — GOVERNMENTAL FUNDS DECEMBER 31, 2004

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash — restricted		\$ 11,031,444	\$ 2,530,786	\$ 13,562,230
Cash — unrestricted		48,232		48,232
Interest receivable		20,195	1,883	22,078
Due from other funds			130,152	130,152
Total assets	\$ —	\$ 11,099,871	\$ 2,662,821	\$ 13,762,692
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 9,625	\$ 799,714		\$ 809,339
Advances from related parties	50,000	109,197		159,197
Due to other funds		130,152		130,152
Total liabilities	59,625	1,039,063		1,098,688
FUND BALANCES				
Reserved for debt service			\$ 2,660,938	2,660,938
Reserved for capital projects		10,901,292		10,901,292
Unreserved fund balance (deficit)	(59,625)	(840,484)	1,883	(898,226)
Total fund balances (deficit)	(59,625)	10,060,808	2,662,821	12,664,004
Total liabilities and fund balances (deficit)	\$ —	\$ 11,099,871	\$ 2,662,821	\$ 13,762,692

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

RECONCILIATION OF TOTAL GOVERNMENT FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2004

TOTAL GOVERNMENT FUND BALANCES \$ 12,664,004

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

Capital assets used in the governmental activities are
not financial resources and therefore are not reported
in the funds

Construction in process	\$ 1,421,114
Bond issuance costs — net	<u>436,974</u>

Total 1,858,088

Accrued interest on long-term bonds is not accounted
for under modified accrual and therefore is not reported
in the funds (88,417)

Long-term liabilities, including bonds payable, are not
due and payable in the current period and therefore are
not reported in the funds (14,650,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (216,325)

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2004

		Program Revenues		Net Revenue and Change in Net Assets Primary Government — Governmental Activities
Expenses	Charges for Services	Capital Grants and Contributions		
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT				
General government	\$ 126,993	\$ 130,152		\$ 3,159
Interest on long-term debt	<u>268,388</u>	<u> </u>	<u> </u>	<u>(268,388)</u>
Total primary government	<u>\$ 395,381</u>	<u>\$ 130,152</u>	<u>\$ —</u>	(265,229)
General Revenues:				
Interest revenue				<u>48,904</u>
CHANGE IN NET ASSETS				(216,325)
NET ASSETS — Beginning of year				<u> </u>
NET ASSETS — End of year				<u>\$ (216,325)</u>

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE				
Facility fees		\$ 130,152		\$ 130,152
Interest		<u>44,388</u>	\$ <u>4,516</u>	<u>48,904</u>
Total revenues		<u>174,540</u>	<u>4,516</u>	<u>179,056</u>
EXPENDITURES				
Bond issuance costs			443,000	443,000
Capital outlay		1,421,114		1,421,114
Bond interest			179,971	179,971
Professional fees	\$ 112,181			112,181
Other interest	2,520			2,520
Miscellaneous	<u>3,931</u>	<u>1,889</u>	<u>446</u>	<u>6,266</u>
Total expenditures	<u>118,632</u>	<u>1,423,003</u>	<u>623,417</u>	<u>2,165,052</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(118,632)</u>	<u>(1,248,463)</u>	<u>(618,901)</u>	<u>(1,985,996)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds		11,499,904	3,150,096	14,650,000
Transfers in	59,007	109,197	131,626	299,830
Transfers out		<u>(299,830)</u>		<u>(299,830)</u>
Total other financing sources (uses)	<u>59,007</u>	<u>11,309,271</u>	<u>3,281,722</u>	<u>14,650,000</u>
NET CHANGE IN FUND BALANCE	(59,625)	10,060,808	2,662,821	12,664,004
FUND BALANCES — Beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
FUND BALANCES — End of year	<u>\$ (59,625)</u>	<u>\$ 10,060,808</u>	<u>\$ 2,662,821</u>	<u>\$ 12,664,004</u>

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, 2004

NET CHANGE IN GOVERNMENTAL FUND BALANCES \$ 12,664,004

Amounts reported for the 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

Construction in process	\$ 1,421,114
Bond issuance costs — net	<u>436,974</u>

Total 1,858,088

Collection of long-term debt proceeds is not reflected in the statement of activities, whereas in governmental funds it is reported as revenue (14,650,000)

In the statement of activities, interest and charges are accrued on outstanding bonds, whereas, in governmental funds, they are reported when due (88,417)

CHANGE IN NET ASSETS OF GOVERNMENTAL
ACTIVITIES \$ (216,325)

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. As required by generally accepted accounting principles, 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 14.

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 indicated in the accompanying financial statements (page ____), the District's current liabilities exceeded its current assets (excluding restricted cash) by \$898,226. In addition, the District is in its start-up year and is dependent upon advances from members of its Board of Directors and the issuance of \$14,650,000 of General Obligation Limited Tax Bonds for its operating funds.

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 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.

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 2004, actual operating expenses exceeded budgeted 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, 2004 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. PUBLIC IMPROVEMENTS

Public improvements largely consist of construction in process of road and bridge improvements, sidewalks, water and wastewater, drainage and landscaping. The amount of construction in process at December 31, 2004 was \$1,421,114.

3. GENERAL OBLIGATION LIMITED TAX BONDS

A summary of bonds payable is as follows:

	Balance at 1/01/04	Increased	Decreased	Balance at 12/31/04	Amounts Due Within One Year
General Obligation Limited Tax Bonds Series 2004 — \$14,650,000 originally issued with 7.25% interest	\$ _____	\$ 14,650,000	\$ _____	\$ 14,650,000	\$ _____

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
2005		\$ 1,062,125	\$ 1,062,125
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
2010-2014	1,080,000	4,872,363	5,952,363
2015-2019	1,970,000	4,380,813	6,350,813
2020-2024	3,555,000	3,454,625	7,009,625
2025-2029	<u>7,245,000</u>	<u>1,853,463</u>	<u>9,098,463</u>
Total	<u>\$ 14,650,000</u>	<u>\$ 19,784,889</u>	<u>\$ 34,434,889</u>

4. 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.

5. 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.

6. PUBLIC DEPOSITORY

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government in Colorado deposit cash in eligible public depositories. State regulations 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 at least equal to 102% of the aggregate uninsured deposits. Deposits are categorized to give an indication of risk assumed by the government at the end of the year. Category 1 includes deposits that are insured. Category 2 includes collateralized deposits held by the pledging institution's department or agent in the District's name. Category 3 includes uncollateralized, uninsured deposits. At December 31, 2004 the District deposits are categorized as follows:

	2004	
	Bank Balance	Carrying Balance
Categorized deposits:		
Deposits covered by federal insurance		
— Category 1	<u>\$ 198,680</u>	<u>\$ 198,680</u>

7. 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.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

SUPPLEMENTAL SCHEDULE

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2004

	Budget	Actual	Variance
GENERAL FUND			
REVENUE	\$ —	\$ —	\$ —
EXPENDITURES			
Professional fees	33,000	112,181	(79,181)
Other interest		2,520	(2,520)
Insurance	1,500		1,500
Miscellaneous	<u>5,500</u>	<u>3,931</u>	<u>1,569</u>
Total	<u>40,000</u>	<u>118,632</u>	<u>(78,632)</u>
Deficit of revenues over expenditures	(40,000)	(118,632)	(78,632)
OTHER FINANCING SOURCES AND USES			
Transfers in	<u>40,000</u>	<u>59,007</u>	<u>19,007</u>
Change in fund balances	<u>\$ —</u>	<u>\$ (59,625)</u>	<u>\$ (59,625)</u>