

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**

**FINANCIAL STATEMENTS**

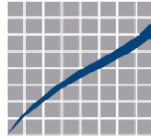
**DECEMBER 31, 2012**



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**BiggsKofford**  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
**Central Marksheffel Metropolitan District**  
Colorado Springs, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Central Marksheffel Metropolitan District ("District") as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2012, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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 opinions on the basic financial statements are not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*BiggsKofford, P.C.*

Colorado Springs, Colorado  
October 10, 2013

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## **BASIC FINANCIAL STATEMENTS**

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2012**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 2,988,006
Accounts receivable - County Treasurer	5,711
Property taxes receivable	972,898
Grant receivable	100,000
	<u>4,066,615</u>
 <b><u>LIABILITIES</u></b>	
Accounts payable	34,752
Advances from related parties	75,292
Accrued interest payable	719,452
Noncurrent liabilities:	
Developer advances	1,957,300
General obligation limited tax bonds:	
Due within one year	215,000
Due in more than one year	13,020,000
	<u>16,021,796</u>
 <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred tax revenue	972,898
	<u>972,898</u>
 <b><u>NET POSITION</u></b>	
Restricted for:	
Debt service	2,913,436
Emergency reserve	4,722
Unrestricted	(15,846,237)
	<u>(12,928,079)</u>
Total net position	<u>\$ (12,928,079)</u>

The accompanying notes and independent auditor's report  
should be read with this financial statement.



**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue and Change in Net assets of Primary Government - Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>FUNCTIONS/PROGRAMS</b>					
<b>PRIMARY GOVERNMENT:</b>					
General government	\$ 172,432	\$ -	\$ -	\$ -	\$ (172,432)
Grant revenues	-	-	100,000	-	100,000
Interest and related costs on long-term debt	1,103,512	-	-	-	(1,103,512)
<b>Total primary government</b>	<b>\$ 1,275,944</b>	<b>\$ -</b>	<b>\$ 100,000</b>	<b>\$ -</b>	<b>(1,175,944)</b>
<b>GENERAL REVENUES:</b>					
Property tax					937,048
Specific ownership taxes					90,700
Investment earnings					5,322
<b>Total general revenues</b>					<b>1,033,070</b>
<b>Changes in net position</b>					<b>(142,874)</b>
<b>Net position, beginning of year</b>					<b>(12,785,205)</b>
<b>Net position, end of year</b>					<b><u><u>\$(12,928,079)</u></u></b>

The accompanying notes and independent auditor's report should be read with this financial statement.

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 101,728	\$ 77,840	\$ 2,808,439	\$ 2,988,007
Accounts receivables - County Treasurer	714	-	4,997	5,711
Property taxes receivable	121,612	-	851,286	972,898
Grant receivable	-	-	100,000	100,000
<b>Total assets</b>	<b>\$ 224,054</b>	<b>\$ 77,840</b>	<b>\$ 3,764,722</b>	<b>4,066,616</b>
<b><u>LIABILITIES</u></b>				
Accounts payable	34,752	-	-	34,752
Advances from related parties	-	75,292	-	75,292
<b>Total liabilities</b>	<b>34,752</b>	<b>75,292</b>	<b>-</b>	<b>110,044</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Deferred property tax revenue	121,612	-	851,286	972,898
<b>Total deferred inflows of resources</b>	<b>121,612</b>	<b>-</b>	<b>851,286</b>	<b>972,898</b>
<b><u>FUND BALANCE</u></b>				
Restricted for:				
Debt service	-	-	2,813,436	2,813,436
Emergency reserve	4,722	-	-	4,722
Committed to:				
Capital projects	-	43,236	-	43,236
Unassigned:				
General government	62,968	(40,688)	100,000	122,280
<b>Total fund balances</b>	<b>67,690</b>	<b>2,548</b>	<b>2,913,436</b>	<b>2,983,674</b>
<b>Total liabilities and fund balances</b>	<b>\$ 224,054</b>	<b>\$ 77,840</b>	<b>\$ 3,764,722</b>	

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

Long-term liabilities, including developer advances payable and bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	(13,235,000)
Developer advances	(1,957,300)
Accrued interest payable	(719,453)
<b>Net position of governmental activities</b>	<b><u>\$(12,928,079)</u></b>

The accompanying notes and independent auditor's report should be read with this financial statement.

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 117,177	\$ -	\$ 819,871	\$ 937,048
Specific ownership taxes	11,337	-	79,363	90,700
Grant revenues	-	-	100,000	100,000
Net investment income	-	76	5,246	5,322
<b>Total revenues</b>	<b>128,514</b>	<b>76</b>	<b>1,004,480</b>	<b>1,133,070</b>
<b><u>EXPENDITURES</u></b>				
Current:				
Audit	6,500	-	-	6,500
Bank charges	212	23	2,481	2,716
Board of directors fees	1,300	-	-	1,300
Consulting	9,834	-	-	9,834
Engineering	900	-	-	900
Insurance	2,113	-	-	2,113
Landscaping and maintenance	12,131	-	-	12,131
Legal	43,069	-	-	43,069
Management fees	78,000	-	-	78,000
Other	1,322	-	-	1,322
Postage	226	-	-	226
Treasurer's fees	1,790	-	12,530	14,320
Debt service:				
Bond principal	-	-	215,000	215,000
Interest	-	-	980,498	980,498
<b>Total expenditures</b>	<b>157,397</b>	<b>23</b>	<b>1,210,509</b>	<b>1,367,929</b>
Excess of revenues over (under) expenditures	(28,883)	53	(206,029)	(234,859)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in (out)	(10,490)	3,905	6,585	-
<b>Total other financing sources (uses)</b>	<b>(10,490)</b>	<b>3,905</b>	<b>6,585</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(39,373)</b>	<b>3,958</b>	<b>(199,444)</b>	<b>(234,859)</b>
Fund balances, beginning of year	107,063	(1,410)	3,112,880	3,218,533
<b>Fund balances, end of year</b>	<b>\$ 67,690</b>	<b>\$ 2,548</b>	<b>\$ 2,913,436</b>	<b>\$ 2,983,674</b>

The accompanying notes and independent auditor's report  
should be read with this financial statement.

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**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT  
RECONCILITAION OF THE STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2012**

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

<b>Net change in fund balances - total governmental funds</b>	\$	(234,859)
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The issuance of debt provides current financial resources to government funds, while the repayment of principal of debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The net effect of these differences in the treatment of debt is as follows:

<u>Principal payment bonds</u>		215,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

<u>Change in accrued interest</u>		<u>(123,015)</u>
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<b>Changes in net position of governmental activities</b>	<b>\$</b>	<b><u>(142,874)</u></b>
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The accompanying notes and independent auditor's report should be read with this financial statement.

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**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Year to Date Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 119,337	\$ 119,333	\$ 117,177	\$ (2,156)
Specific ownership taxes	7,160	10,592	11,337	745
Total revenues	<u>126,497</u>	<u>129,925</u>	<u>128,514</u>	<u>(1,411)</u>
<b><u>EXPENDITURES</u></b>				
Audit	6,600	6,600	6,500	100
Bank charges	175	212	212	-
Board of directors fees	1,000	1,300	1,300	-
Consulting	-	-	9,834	(9,834)
Engineering	-	-	900	(900)
Insurance	2,000	2,000	2,113	(113)
Landscaping and maintenance	20,000	12,200	12,131	69
Legal	20,000	21,500	43,069	(21,569)
Management fees	78,000	78,000	78,000	-
Other	1,000	1,600	1,322	278
Postage	200	227	226	1
Treasurer's fees	1,790	1,803	1,790	13
Contingency	-	13,101	-	13,101
Total expenditures	<u>130,765</u>	<u>138,543</u>	<u>157,397</u>	<u>(18,854)</u>
Excess of revenues over (under) expenditures	(4,268)	(8,618)	(28,883)	(20,265)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Developer reimbursement	-	(13,101)	-	13,101
Transfers in	-	-	(10,490)	(10,490)
Total other financing sources (uses)	<u>-</u>	<u>(13,101)</u>	<u>(10,490)</u>	<u>2,611</u>
Net change in fund balance	<u>\$ (4,268)</u>	<u>\$ (21,719)</u>	<u>(39,373)</u>	<u>\$ (17,654)</u>
Fund balance, beginning of year			<u>107,063</u>	
Fund deficit, end of year			<u>\$ 67,690</u>	

The accompanying notes and independent auditor's report  
should be read with this financial statement.

# CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### DECEMBER 31, 2012

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#### 1. DEFINITION OF REPORTING ENTITY

Central Marksheffel Metropolitan District ("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 ("County"). 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 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 and 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.

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

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net position.

See independent auditor's report



**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement focus, basis of accounting and financial statement position

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.

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 collectable 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 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, grants and intergovernmental revenue. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

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.

See independent auditor's report

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Measurement focus, basis of accounting and financial statement position (continued)

*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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with state budget law, the District's board of directors holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures, fund balance remaining, and other financing uses level and lapses at year-end. The District's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

During the year ended December 31, 2012, supplementary appropriations approved by the District modified the general fund appropriation from \$130,765 to \$138,543 plus fund balances remaining. Accordingly, the appropriations of \$138,543 plus the fund balances remaining of \$107,063 were sufficient to cover the District's general fund expenditures of \$157,397.

Pooled cash and investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Investments are carried at fair value.

See independent auditor's report

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property tax

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected to the District monthly.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenues in the year they are levied and measurable. The deferred property tax revenues are recorded as revenues in the year they are available or collected.

Interfund balances

The District reports interfund balances that are representative of lending/borrowing arrangements between funds in the fund financial statements as due to/from other funds. The interfund balances have been eliminated in the government-wide statements.

Fund equity

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

*Nonspendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or is legally or contractually required to be maintained intact.

*Restricted fund balance* - The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

See independent auditor's report

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fund equity (continued)

*Committed fund balance* - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the board of directors. The constraint may be removed or changed only through formal action of the board of directors.

*Assigned fund balance* - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

*Unassigned fund balance* - The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

New accounting pronouncements

Effective January 1, 2012, the District implemented the provisions of GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB No. 63") and early implemented the provisions of GASB No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB No. 65").

GASB No. 63 provides guidance for reporting deferred outflows and deferred inflows of resources as introduced and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements* ("Concepts Statement No. 4"). Concepts Statement No. 4 defines a deferred outflow of resources as a consumption of net assets that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net assets applicable to a future reporting period. The impact on the District's financial statements has been to replace the term "net assets" with "net position".

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities. Some assets previously reported as assets are now reported as an outflow of resources/expenses. Additionally, the District's receivable related to property taxes to be collected in 2013 is treated as a deferred inflow of resources.

See independent auditor's report

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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**3. CASH AND INVESTMENTS**

Cash and investments as of December 31, 2012 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	<u><u>\$ 2,988,006</u></u>

Cash and investments as of December 31, 2012 consist of the following:

Deposits with financial institutions	\$ 373,957
Investments	<u><u>2,614,049</u></u>
	<u><u>\$ 2,988,006</u></u>

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. The PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be 102% of the aggregate uninsured deposits.

The state commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

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 identified 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.

See independent auditor's report

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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**3. CASH AND INVESTMENTS (CONTINUED)**

Investments (continued)

Colorado revised statutes limit investment maturities to five years or less unless otherwise 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 United States government agency securities
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- \* Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

**4. LONG-TERM OBLIGATIONS**

2004 Series Bonds

In 2004, the District issued general obligation limited tax bonds with a face value of \$14,650,000. The bonds bear interest at an annual rate of 7.25% to be paid to the bondholders semi-annually on each June 1 and December 1, beginning December 1, 2004. The bonds mature on December 1, 2029 and are subject to redemption prior to maturity at the discretion of the District, as a whole or in integral multiples of \$5,000 on December 1, 2014 or on any date thereafter. The bonds are subject to mandatory sinking fund redemption requirements beginning in 2006.

Payment of the principal and interest on the bonds will be from property taxes and pledged 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 on the taxable property within the District.

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**4. LONG-TERM OBLIGATIONS (CONTINUED)**

2004 Series Bonds (continued)

The District is required, pursuant to the bond agreements, to maintain bond and reserve cash accounts. The purpose of the reserve cash accounts is to provide adequate reserves to meet principal and interest requirements of the bonds. The reserve account is required to be maintained as long as the bonds are outstanding.

Developer advances

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 that benefit the District and development within the District. This project was completed by the developer in the spring of 2007 at a cost of \$657,300. These costs will potentially be reduced by any reimbursements actually received by the developer from other sources such as a neighboring metropolitan district with which the developer has a reimbursement agreement. The District has recorded \$657,300 which management believes is a reasonable estimate of its liability. Simple interest at 6% totaling \$238,789 has also been accrued. These commitments are subordinate to the District's bond liability. The District does not know when the liability will be paid as it is subordinate to the bonds and payments are subject to appropriation by the District.

On April 30, 2007, 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. Under the agreement, the reimbursement shall not exceed \$1,300,000 plus simple interest of 6% per annum commencing upon full completion and full acceptance of the intersection improvements by the appropriate jurisdiction. Payments are subject to annual appropriation and subordinate to the District's bond liability. The District's liability under the agreement is to be reduced by the 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. Construction on this project was completed and the District has recorded \$1,300,000 as a liability. The District does not know when or if it will receive any reimbursements to offset this liability. The District has also recorded \$342,132 of accrued interest related to this project. The District does not know when the liability will be paid as it is subordinate to the bonds.

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**4. LONG-TERM OBLIGATIONS (CONTINUED)**

Developer advances (continued)

On August 7, 2007, the District entered into an agreement with a developer under which the District will reimburse the developer for construction costs related to various road improvements for the benefit of the District. The reimbursement shall not exceed \$280,000 and is conditional upon receiving 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. As of December 31, 2012, no cost recoveries have been collected and the District has not recognized \$280,000 as a liability due to the uncertainties of the receipt of funds and the conditional nature of the repayment source pledge.

The following is a summary of long-term debt of the District during the year ended December 31, 2012:

	<u>Balance 1/1/12</u>	<u>Additions</u>	<u>Repayments/ Defeasance</u>	<u>Balance 12/31/12</u>
2004 Series Bonds	\$ 13,450,000	\$ -	\$ 215,000	\$ 13,235,000
Developer advances	<u>1,957,300</u>	<u>-</u>	<u>-</u>	<u>1,957,300</u>
	<u>\$ 15,407,300</u>	<u>\$ -</u>	<u>\$ 215,000</u>	<u>\$ 15,192,300</u>

The District's long-term obligation on the 2004 Series Bonds will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 215,000	\$ 959,538	\$ 1,174,538
2014	250,000	943,950	1,193,950
2015	295,000	925,925	1,220,925
2016	340,000	904,438	1,244,438
2017	390,000	879,788	1,269,788
2018-2022	2,845,000	3,891,800	6,736,800
2023-2027	4,855,000	2,592,238	7,447,238
2028-2029	<u>4,045,000</u>	<u>494,813</u>	<u>4,539,813</u>
Total	<u>\$ 13,235,000</u>	<u>\$ 11,592,488</u>	<u>\$ 24,827,488</u>

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**5. NET POSITION**

The District has net position consisting of two components - restricted and unrestricted.

Restricted positions include net position that are subject to restrictions for use either by external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2012 as follows:

Restricted net position:

Emergencies (see Note 10)	\$ 4,722
Debt service (see Note 4)	<u>2,813,436</u>
	<u><u>\$ 2,818,158</u></u>

The District's unrestricted net position as of December 31, 2012 totaled a deficit of \$15,846,237. This deficit amount was a result of the District being responsible for the repayment of general obligation bonds.

**6. RELATED PARTIES**

Some members of the board of directors are officers, employees or associated with the developers of the property within the District and may have conflicts of interest in dealing with the District.

An entity controlled by a member of board of directors has advanced funds to the District. Outstanding advances at December 31, 2012 are \$75,292. The advances are short-term, unsecured, and accrue interest at a rate of 8% per annum.

**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.

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**7. INTERGOVERNMENTAL AGREEMENT (CONTINUED)**

In November 2012, the County and District entered into a first amendment to the agreement that relieves the County of its obligation to collect a contribution for the District's costs of construction for a portion of Marksheffel Road from certain properties outside the District's boundaries in favor of establishing a credit for the District within County's Road Impact Fee Program for regional road improvements previously built and to apply such credits first to the property within the District, and establish a reimbursable amount for the balance of the credit to be reimbursed by the County and paid to the District over time.

**8. ECONOMIC DEPENDENCY**

The District has not yet established a revenue base sufficient to fund capital expenditures. Until an independent revenue base is established, construction of public improvements will be dependent upon funding by the developer.

**9. RISK MANAGEMENT**

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

The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool"). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**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 within the State of Colorado.

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**10. TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

Spending and revenue limits are determined based on the prior 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. The District's voters approved a ballot issue allowing the District to retain all revenues.

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's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

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## **SUPPLEMENTARY INFORMATION**

**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**CAPITAL PROJECT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Year to Date Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>REVENUES</u></b>				
Net investment income	100	76	76	-
Total revenues	100	76	76	-
<b><u>EXPENDITURES</u></b>				
Bank charges	20	23	23	-
Capital construction	70,093	-	-	-
Project management	5,000	-	-	-
Total expenditures	75,113	23	23	-
Revenues in excess (deficit) of expenditures	(75,013)	53	53	-
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in (out)	-	-	3,905	3,905
Total other financing sources	-	-	3,905	3,905
Net change in fund balance	<u>\$ (75,013)</u>	<u>\$ 53</u>	\$ 3,958	<u>\$ 3,905</u>
Fund balance, beginning of year			(1,410)	
Fund balance, end of year			<u>\$ 2,548</u>	

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**CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Year to Date Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 835,357	\$ 816,057	\$ 819,871	\$ 3,814
Specific ownership taxes	50,121	74,145	79,363	5,218
Commercial impact fees	25,000	-	-	-
Grant revenues	-	-	100,000	100,000
Net investment income	250	375	5,246	4,871
<u>Total revenues</u>	<u>910,728</u>	<u>890,577</u>	<u>1,004,480</u>	<u>113,903</u>
<b><u>EXPENDITURES</u></b>				
Bank charges	2,000	1,734	2,481	(747)
Treasurer's fees	12,531	12,515	12,530	(15)
Bond principal	215,000	215,000	215,000	-
Interest	723,951	870,754	980,498	(109,744)
<u>Total expenditures</u>	<u>953,482</u>	<u>1,100,003</u>	<u>1,210,509</u>	<u>(110,506)</u>
Revenues in excess (deficit) of expenditures	(42,754)	(209,426)	(206,029)	3,397
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in (out)	-	-	6,585	6,585
<u>Total other financing sources</u>	<u>-</u>	<u>-</u>	<u>6,585</u>	<u>6,585</u>
Net change in fund balance	<u>\$ (42,754)</u>	<u>\$ (209,426)</u>	\$ (199,444)	<u>\$ 9,982</u>
Fund balance, beginning of year			3,112,880	
Fund balance, end of year			<u>\$ 2,913,436</u>	

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