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CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

Management's Discussion and Analysis and Financial Statements

For the Year Ended December 31, 2011

And

Independent Auditors' Report

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

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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 December 31, 2011 and for the year then ended, which collectively comprise the basic financial statements of the District, as listed in the table of contents. 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, 2011 and the respective changes in financial position and the budgetary comparisons of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information of consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The budgetary comparisons on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparisons are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stockman Kast Ryan + Co., LLP

July 19, 2012

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, 2011. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2011

- Total assets in 2011 decreased by 7% compared to 2010.
- Total revenues in 2011 decreased by 20% compared to 2010.
- Total expenditures prior to capital asset transfers decreased to $1.3 million from 2010 to 2011.
- Non-current liabilities decreased to $15,407,300 in 2011 from $15,607,000 in 2010, due to principal payments.

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 6).

- **Statement of activities –** reports how the District's net assets changed during the most recent fiscal year. (See page 7)

- **Balance sheet and statement of revenues, expenses and changes in fund balances-governmental funds -** reports the District's operating and non-operating current expenses and governmental funds. (See pages 8 and 9).

STATEMENT OF NET ASSETS:

Assets, liabilities and net assets for 2011 compared with 2010 were as follows:

	2011	2010	Percent Increase (Decrease)
ASSETS			
Cash	$ 3,307,327	$ 3,485,936	(5)%
Property taxes receivable	954,695	1,075,160	(11)%
TOTAL	$ 4,262,022	$ 4,561,096	(7)%

	2011	2010	Percent Increase (Decrease)
LIABILITIES			
Accounts payable	$ 9,597	$ 15,989	(40)%
Accrued interest	596,438	422,460	41 %
Deferred property tax revenue	954,695	1,075,160	(11)%
Advances from related parties	79,197	79,197	0 %
Non-current liabilities	15,407,300	15,607,300	(1)%
TOTAL LIABILITIES	17,047,227	17,200,106	(1)%
NET ASSETS			
Restricted for debt service	3,106,891	3,281,953	(5)%
Restricted for emergency services	4,456	4,108	8 %
Unrestricted accumulated deficit	(15,896,552)	(15,925,071)	0 %
Total accumulated deficit	(12,785,205)	(12,639,010)	1 %
TOTAL	$ 4,262,022	$ 4,561,096	(7)%

Changes in assets and liabilities in 2011 were all considered normal operating fluctuations.

REVIEW OF REVENUES AND EXPENDITURES:

Revenues for 2011 compared with 2010 are as follows:

	2011	2010	Percent Increase (Decrease)
REVENUE			
Property taxes	$ 1,169,651	$ 1,158,827	1 %
Charges for services	5,989	300,245	(98)%
Interest	3,368	5,563	(39)%
Total revenue	$ 1,179,008	$ 1,464,635	(20)%

The charges for services decreased because of significantly less activity in 2011. Property taxes increased 1%, which should continue to grow with the future addition of commercial properties.

Expenditures for 2011 compared with 2010 are as follows:

	2011	2010	Percent Increase (Decrease)
EXPENDITURES			
Interest	$ 1,163,603	$ 1,246,084	(7)%
Professional fees	150,630	139,601	8 %
Insurance	2,255	1,247	81 %
Miscellaneous	8,715	13,454	(35)%
Total expenditures prior to transfer	1,325,203	1,400,386	(5)%
Transfer of capital assets		11,652,462	(100)%
Total expenditures	$ 1,325,203	$ 13,052,848	(90)%

Expenditures, prior to the transfer of capital assets, of $1.3 million decreased by 5% due to less interest expense in the current year resulting from agreement adjustments. The majority of the expenses are for bond interest. Additionally, the District had bond payments of $200,000.

Fund Balances:

General Fund – The general fund balance decreased in the current year by approximately $2,000 due to expenditures of approximately $148,000 which was offset by property taxes of approximately $146,000. The fund balance at year end is unreserved other than $4,456 which is restricted by TABOR for an emergency reserve.

Capital Projects Fund – There was not a significant change in the capital projects fund for the year. The fund has a committed balance of $43,813 and an unreserved deficit of $45,223.

Debt Service Fund – The debt service fund decreased approximately $169,000 due to debt service and interest of approximately $1,202,000 offset by property taxes and fees of approximately $1,033,000. The entire fund balance of $3,112,880 remains restricted for debt service according to the original bond agreement.

Debt Outstanding:

The District remains with long-term debt of $13,450,000 for Bond Series 2004. The schedule (for details see page 16) reflects the payments over the next 19 years using the annual mill levy and building permit fees.

Economic and Other Factors:

The economy in Colorado Springs remained weak in 2011. However, new construction of commercial buildings and sites, some residential, and have 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 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 308, Colorado Springs, Colorado 80903.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS	
Cash	$ 3,307,327
Property taxes receivable	954,695
Total assets	4,262,022
LIABILITIES	
Accounts payable	9,597
Accrued interest	596,438
Deferred property tax revenue	954,695
Advances from related parties	79,197
Non-current liabilities:	
Developer advances	1,957,300
General obligation limited tax bonds:	
Due within one year	215,000
Due in more than one year	13,235,000
Total liabilities	17,047,227
NET ASSETS (DEFICIT)	
Restricted for debt service	3,106,891
Restricted for emergency services	4,456
Unrestricted accumulated deficit	(15,896,552)
Total net assets (deficit)	$ (12,785,205)

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	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	$ 161,600	$ 1,175,640		$ 1,014,040
Interest on long-term debt	1,163,603			(1,163,603)
Total primary government	$ 1,325,203	$ 1,175,640	$ —	(149,563)
General Revenues:				
Interest revenue				3,368
CHANGE IN NET ASSETS (DEFICIT)				(146,195)
NET ASSETS (DEFICIT), Beginning of year				(12,639,010)
NET ASSETS (DEFICIT), End of year				$ (12,785,205)

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

BALANCE SHEET — GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash	$ 116,660	$ 77,787	$ 3,112,880	$ 3,307,327
Property taxes receivable	119,337		835,358	954,695
Total assets	$ 235,997	$ 77,787	$ 3,948,238	$ 4,262,022
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 9,597			$ 9,597
Deferred property tax revenue	119,337		$ 835,358	954,695
Advances from related parties		$ 79,197		79,197
Total liabilities	128,934	79,197	835,358	1,043,489
FUND BALANCES				
Restricted for debt service			3,112,880	3,112,880
Restricted for emergency	4,456			4,456
Committed for capital projects		43,813		43,813
Unreserved fund balance (deficit)	102,607	(45,223)		57,384
Total fund balances	107,063	(1,410)	3,112,880	3,218,533
Total liabilities and fund balances	$ 235,997	$ 77,787	$ 3,948,238	

Amounts reported for governmental activities in the statement of net assets are different because:	
Liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(13,450,000)
Developer advances	(1,957,300)
Accrued interest payable	(596,438)
Net assets (deficit) of government activities	$ (12,785,205)

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, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE				
Property taxes	$ 146,206		$ 1,023,445	$ 1,169,651
Charges for services			5,989	5,989
Interest		$ 13	3,355	3,368
Total revenues	146,206	13	1,032,789	1,179,008
EXPENDITURES				
Interest			989,625	989,625
Bond principal			200,000	200,000
Professional fees	142,424		8,206	150,630
Insurance	2,255			2,255
Miscellaneous	3,859	825	4,031	8,715
Total expenditures	148,538	825	1,201,862	1,351,225
NET CHANGE IN FUND BALANCES	(2,332)	(812)	(169,073)	(172,217)
FUND BALANCES, Beginning of year	109,395	(598)	3,281,953	3,390,750
FUND BALANCES, End of year	$ 107,063	$ (1,410)	$ 3,112,880	$ 3,218,533

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

NET CHANGE IN GOVERNMENTAL FUND BALANCES	$ (172,217)
Amounts reported for governmental activities in the statement of activities are different because:	
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 is accrued on outstanding bonds, whereas in governmental funds it is reported when paid. In 2011 the amount accrued exceeded the amount paid.	(173,978)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (146,195)

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, 2011

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE	$ 141,115	$ 146,182	$ 146,206	$ 24
EXPENDITURES				
Professional fees	119,216	146,861	142,424	4,437
Insurance	2,200	1,741	2,255	(514)
Miscellaneous	1,410	347	3,859	(3,512)
Total expenditures	122,826	148,949	148,538	411
NET CHANGE IN FUND BALANCE	$ 18,289	$ (2,767)	$ (2,332)	$ 435

See notes to financial statements.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

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 non-fiduciary 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.

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.

Fund Balances — In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the District is bound to honor constraints on the specific purposes for which spending within the fund can occur. The following classifications of fund balance describe the relative strength of the spending constraints:

Restricted — Includes the portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions (see TABOR discussion below) or enabling legislation.

Committed — Includes the portion of fund balance that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Directors, the highest level of decision making authority. The constraint, once imposed can only be removed or changed through formal action of the Board.

Assigned — Includes the portion of the fund balance that is constrained by the District's intent for use for a specific purpose but said intent does not meet the definition of either Restricted or Committed. Under the District's adopted guidelines, the Board has delegated the authority for such assignment to the District's chief financial officer.

Unassigned — Includes amount that have not been assigned to other funds or restricted, committed or assigned to a specific purpose with the General Fund.

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 available classification first.

In the net asset financial statements, net assets represent the difference between assets and liabilities. The net assets are further classified as follows:

- Net assets invested in capital assets, net of related debt, consists of the value of capital assets net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition or construction of improvement on those assets excluding unspent bond proceeds.
- Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restriction imposed by creditors, grantors, laws or regulations of other governments.

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

Restricted Fund Balance — Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 7). $4,456 of the fund balance has been reserved in compliance with this requirement. Original bond proceeds in the amount of $43,813 are restricted for capital improvements. The bonds also require a portion of all property taxes to be restricted for debt service. This balance at December 31, 2011 is $3,112,880.

The District follows Governmental Accounting Standards Board pronouncements in government-wide financial statements. Statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

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.

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.

Subsequent Events — The District has evaluated subsequent events for recognition or disclosure through July 19, 2012, the date the financial statements were available for issuance.

2. CASH AND INVESTMENTS

Cash totaling $3,307,327 as of December 31, 2011 consists 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 is 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, 2011, the carrying amount and bank balances of the District's cash was $3,307,327. Bank balances of $388,890 were covered by federal depository insurance and $2,918,437 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, 2011, the District had no investments.

3. LONG-TERM DEBT

A summary of long-term debt for the year ended December 31, 2011 is as follows:

	Balance at January 1, 2011	Increase	Decrease	Balance at December 31, 2011	Amounts Due Within One Year
General Obligation Limited Tax Bonds Series 2004 — $14,650,000 originally issued with 7.25% interest	$ 13,650,000		$ 200,000	$ 13,450,000	$ 215,000
Developer advances	1,957,300			1,957,300	
	$ 15,607,300	$ —	$ 200,000	$ 15,407,300	$ 215,000

Payment of the principal and interest on the bonds will be from property taxes and 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
2012	$ 215,000	$ 975,125	$ 1,190,125
2013	215,000	959,538	1,174,538
2014	250,000	943,950	1,193,950
2015	295,000	925,825	1,220,825
2016	340,000	904,438	1,244,438
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	$ 13,450,000	$ 12,567,514	$ 26,017,514

Voters in the District authorized the District to be able to incur a maximum of $31,250,000 of debt. Subsequent to the issuance of the 2004 Bonds, the District has $16,600,000 in authorized but unissued debt. The District does not have any intention to issue additional debt at this time.

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. 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. Additional simple interest at 6% totaling $199,243 has also been accrued. The commitment is 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 31, 2007, the District entered into an agreement with a developer under which the District will reimburse the developer for construction cost 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 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 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 they will receive any reimbursements to offset this liability. The District has also recorded $263,918 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.

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, 2011, 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.

4. ADVANCES DUE RELATED PARTIES

An entity controlled by a Board member has advanced funds to the District. Outstanding advances at December 31, 2011 are $79,197. The advances are short-term, unsecured, and accrue interest at a rate of 8%.

5. 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.

6. 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, 2011. 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.

7. 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 allow the retaining and spending of all revenues collected. The District believes that it is in compliance with all the provisions of TABOR as it is currently understood.

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

SUPPLEMENTAL SCHEDULES

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE				
Interest	$ 100	$ 46	$ 13	$ (33)
EXPENDITURES				
Capital outlay	75,093			
Miscellaneous	20	857	825	32
Total expenditures	75,113	857	825	32
NET CHANGE IN FUND BALANCE	$ (75,013)	$ (811)	$ (812)	$ (1)

CENTRAL MARKSHEFFEL METROPOLITAN DISTRICT

DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE				
Property taxes	$ 987,802	$ 1,023,151	$ 1,023,445	$ 294
Charges for services	115,784	5,989	5,989	
Interest	3,000	2,628	3,355	727
Total revenue	1,106,586	1,031,768	1,032,789	1,021
EXPENDITURES				
Bond interest	989,625	988,581	989,625	(1,044)
Bond principal	200,000	200,000	200,000	
Professional fees	14,111	14,112	8,206	5,906
Miscellaneous	3,100	2,788	4,031	(1,243)
Total expenditures	1,206,836	1,205,481	1,201,862	3,619
NET CHANGE IN FUND BALANCE	$ (100,250)	$ (173,713)	$ (169,073)	$ 4,640