TRAILMARK METROPOLITAN DISTRICT Jefferson County, Colorado

GENERAL PURPOSE FINANCIAL STATEMENTS and SUPPLEMENTAL INFORMATION December 31, 2001

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Independent Auditor's Report

Board of Directors Trailmark Metropolitan District Jefferson County, Colorado

We have audited the accompanying general purpose financial statements of Trailmark Metropolitan District as of and for the year ended December 31, 2001, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Trailmark Metropolitan District at December 31, 2001 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not yet established a revenue base sufficient to pay operations and capital expenditures. The District is dependent upon the Developer of the District's service area to provide funds for such expenditures.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Trailmark Metropolitan District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Clifton Gunderson LLP

Greenwood Village, Colorado March 28, 2002



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GENERAL PURPOSE FINANCIAL STATEMENTS

TRAILMARK METROPOLITAN DISTRICT COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS December 31, 2001

(with comparative totals for December 31, 2000)

	Governmental Fund Types					
ASSETS AND OTHER DEBITS	General		Debt Service		Capital Projects	
ASSETS AND OTHER DEBITS						
Cash and investments	\$	3,028	\$	-	\$	21,307
Investments held by Trustee		-		_	•	490,631
Due from other funds		8,222		<u></u>		<u></u>
Property taxes receivable		93,034		591,522		_
Other receivables		18,482		565		300
Property		, -		-		-
Amount available in Debt Service Fund		_		_		_
Amount to be provided for retirement of						
general long-term obligations		_		_		_
TOTAL ASSETS AND OTHER DEBITS	\$	122,766	\$	592,087	\$	512,238
LIABILITIES AND EQUITY						
LIABILITIES						
Accounts and retainage payable	\$	6,387	\$	-	\$	163,978
Due to other funds		_		-	·	8,222
Due to Developer		19,345		-		-,
Deferred property tax revenue		93,034		591,522		-
Long-term obligations payable		<u>.</u>		, _		-
Total liabilities		118,766		591,522		172,200
EQUITY						
Investment in general fixed assets		-		_		-
Fund balance						
Reserved		4,000		565		340,038
Unreserved undesignated		-,		-		-
Total equity		4,000		565		340,038
TOTAL LIABILITIES AND EQUITY	\$	122,766	\$	592,087	\$	512,238

Accoun	t Groups								
General General				Totals					
Fixed		g-Term		(Memorandum Only)					
 Assets	<u>Obli</u>	gations		2001		2000			
\$ _	\$	_	\$	24,335	\$	40,868			
-		-		490,631		1,061,282			
-		-		8,222		565			
-		-		684,556		284,136			
-		-		19,347		6,458			
5,593,049		-		5,593,049		7,719,989			
-		565		565		-			
 -	10	,517,291		10,517,291		9,287,916			
\$ 5,593,049	\$ 10	,517,856	\$	17,337,996	\$	18,401,214			
\$ - e,	\$	-	\$	170,365	\$	216,400			
-		-		8,222		565			
-		-		19,345		24,108			
-		-		684,556		284,136			
 	10	,517,856		10,517,856		9,287,916			
 _	10	,517,856		11,400,344		9,813,125			
5,593,049		-		5,593,049		7,719,989			
ua.		-		344,603		868,000			
 		-		- ·		100			
 5,593,049	<u> </u>			5,937,652		8,588,089			
\$ 5,593,049	\$ 10	,517,856	\$	17,337,996	\$	18,401,214			

These financial statements should be read only in connection with the accompanying notes to financial statements.

TRAILMARK METROPOLITAN DISTRICT COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

Year Ended December 31, 2001

(with comparative totals for year ended December 31, 2000)

	Governmental Fund Types					
				Debt		Capital
	General			Service		Projects
		Fund		Fund		Fund
REVENUE			-			
Property taxes	\$	40,071	\$	237,051	\$	-
Specific ownership taxes		_		21,955		_
Developer advance		4,763		493,986		909,361
Net Investment income		2,653		3,168		28,637
Intergovernmental		8,025		-		-
Park and recreation fees		47,801		-		-
HOA reimbursement		27,010		-		12,688
Total revenue		130,323		756,160	·	950,686
EXPENDITURES						
Accounting and audit		3,900		_		_
District management		40,889		_		_
Insurance		2,144		_		_
Legal		29,072		_		_
Office supplies		4,173		_		_
Maintenance and repairs		12,017		_		-
Treasurer's fees		605		3,552		_
Utilities		34,623		-		_
Other		, -		1,083		-
Paying agent fees		-		2,750		_
Bond principal				270,000		_
Bond interest		_		478,210		_
Capital outlay		_		-		1,477,648
Total expenditures	****	127,423		755,595		1,477,648
EXCESS OF REVENUE OVER						· · · · · · · · · · · · · · · · · · ·
(UNDER) EXPENDITURES		2,900		565	-	(526,962)
FUND BALANCE - BEGINNING OF YEAR		1,100				867,000
FUND BALANCE - END OF YEAR	\$	4,000	\$	565	\$	340,038

Totals	
Memorandum	Only)

(Memorandum Only)						
	2001	2000				
\$	277,122	\$ 86,586				
	21,955	6,660				
	1,408,110	677,677				
	34,458	156,988				
	8,025	4,750				
	47,801	10,863				
	39,698					
	1,837,169	943,524				
	3,900	4,150				
	40,889	19,973				
	2,144	2,103				
	29,072	19,708				
	_e 4,173	3,279				
	12,017	694				
	4,157	734				
	34,623	-				
	1,083	479				
	2,750	2,749				
	270,000	255,000				
	478,210	493,000				
	1,477,648	2,918,772				
	2,360,666	3,720,641				
	(523,497)	(2,777,117)				
	868,100	3,645,217				
\$	344,603	\$ 868,100				

These financial statements should be read only in connection with the accompanying notes to financial statements.

TRAILMARK METROPOLITAN DISTRICT COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES - BUDGET AND ACTUAL Year Ended December 31, 2001

	General Fund					
	Amended Budget			Actual		ariance- avorable favorable)
REVENUE						
Property taxes	\$	41,329	\$	40,071	\$	(1,258)
Specific ownership taxes		-		-		-
Developer advance		33,216		4,763		(28,453)
Net investment income		3,000		2,653		(347)
Intergovernmental		23,700		8,025		(15,675)
Park and recreational fees		35,000		47,801		12,801
HOA reimbursement		-		27,010		27,010
Total revenue		136,245		130,323		(5,922)
EXPENDITURES						
Accounting and audit		3,700		3,900		(200)
District management		18,000		40,889		(22,889)
Insurance		2,175		2,144		31
Legal		15,200		29,072		(13,872)
Office supplies		1,500		4,173		(2,673)
Maintenance and repairs		30,000		12,017		17,983
Treasurer's fees		620		605		15
Utilities		10,000		34,623		(24,623)
Other		-		-		_
Paying agent fees		_		-		_
Bond principal		-		-		_
Bond interest		-		_		-
Capital outlay		-		_		-
Contingency		56,150		-		56,150
Total expenditures		137,345		127,423		9,922
EXCESS OF REVENUE OVER						
(UNDER) EXPENDITURES		(1,100)		2,900		4,000
FUND BALANCE - BEGINNING OF YEAR		1,100	·	1,100	·	-
FUND BALANCE - END OF YEAR	\$		\$	4,000	\$	4,000

Debt Service Fund					Capital Projects Fund							
	Budget		Actual		Variance- Favorable (Unfavorable)		Budget		Actual		Variance- Favorable (Unfavorable)	
\$	242,807	\$	237,051	\$	(5,756)	\$	-	\$	-	\$	-	
	9,000		21,955		12,955		-		-		-	
	500,045		493,986		(6,059)		2,100,000		909,361		(1,190,639)	
	5,000		3,168		(1,832)		90,000		28,637		(61,363)	
	-		NA.		-		-		-		-	
	=		-		-		-		-		-	
	-						-		12,688		12,688	
	756,852		756,160	· .	(692)		2,190,000		950,686		(1,239,314)	
	_		-		_		_					
	_		_		_		_		_		_	
	_		-		_		-		_		_	
	-		-		<u>.</u>		-		-		-	
	•		_		_		-		_		_	
	-	re.	_		-		_		_		_	
	3,642		3,552		90		-		_		-	
	-		-		-		-		-		-	
	-		1,083		(1,083)		-		-		_	
	5,000		2,750		2,250		-		-		_	
	270,000		270,000		-		-		-		-	
	478,210		478,210		-		-		-		-	
	-		-		-		2,200,000		1,477,648		722,352	
	-		-		-		-		-		-	
	756,852		755,595		1,257		2,200,000		1,477,648		722,352	
	-		565		565		(10,000)		(526,962)		(516,962)	
	<u>ua</u>		-				10,000		867,000		857,000	
\$	-	\$	565	\$	565	\$	_	\$	340,038	\$	340,038	

These financial statements should be read only in connection with the accompanying notes to financial statements.

NOTE 1 – DEFINITION OF REPORTING ENTITY

Trailmark Metropolitan District (District) is a quasi-municipal corporation, governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson County, Colorado and entirely within the City of Littleton (City). The District was established to finance the construction of water, irrigation, sanitary sewer and drainage systems, street and safety protection improvements and streetscape, as well as operation and maintenance of streetscaping.

The amended service plan approved by the City of Littleton for the District restricts the District as follows:

- The District shall not levy a property tax mill rate greater than 55 mills of which a maximum of 47 mills can be used for debt service. The mill levy may be adjusted to take into account legislative or constitutionally imposed adjustments in assessed value for the method of their calculation from a base year of 1998, at any time.
- Bond proceeds may not be used for operations and maintenance.
- Bonds to be issued are \$8.5 million with a repayment period not to exceed 30 years from
 issuance. The bonds shall include a repayment provision that all amounts of principal
 and interest which have not been repaid within a thirty year period, from the date of
 issuance, including those amounts which have accrued, shall be discharged and forgiven.
- No fees, rates, tolls, penalties or charges for debt service may be imposed until 40 single family residences have been certified for occupancy by the City. The District may charge a development fee not to exceed \$3,000 to be adjusted from 1993 dollars for debt service.
- Limited sewer service to 854 single family equivalent taps.
- Initiate dissolution of the District at such time as debt is repaid.

The District is dependent on major property owners and developers to provide cash for operations, capital projects and debt service.

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

NOTE 1 – DEFINITION OF REPORTING ENTITY (CONTINUED)

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. Fund types and account groups used by the District are described below.

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of long-term obligation principal, interest and related costs.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Account Groups

General Fixed Assets Account Group - This group of accounts is established to account for recorded fixed assets of the District.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations, including claim liabilities, of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The modified accrual basis of accounting is followed in the governmental fund types. Revenue is recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The major source of revenue which is susceptible to accrual is property taxes. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation paid.

Pooled Cash

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. Net investment income is allocated periodically to the participating funds based upon each fund's average equity balance in the total cash and investments.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures 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 amended upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting.

Subsequent to December 31, 2001, the District approved a supplemental appropriation which modified the General Fund appropriation from \$106,866 to \$137,345.

Encumbrance accounting (open purchase orders, contracts in process and other commitments for the expenditures of funds in future periods) is not used by the District for budget or financial reporting purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property

Property is stated at cost except for those assets contributed which are stated at estimated fair value at the date of contribution or at the developer's cost. No depreciation is provided on general fixed assets. Interest incurred during construction is not capitalized on general fixed assets.

Property Taxes

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 by certification to the County Commissioners to put the tax lien on the individual properties 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 if in equal installments, at the taxpayers election, in February and June. 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 monthly to the District.

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

Fund Balance

The fund balances have been reserved for that portion of the fund balance that is legally segregated or is not subject to future appropriation. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management.

Article X, Section 20 of the Constitution of the State of Colorado requires the District to establish Emergency Reserves (see Note 10). \$4,000 of fund balance of the General Fund has been reserved in compliance with this requirement.

The Debt Service Fund balance is reserved for future payments of bond interest and principal.

The Capital Projects Fund balance consists primarily of unspent bond proceeds and is reserved for payment of capital projects as defined in the service plan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Totals (Memorandum Only)

Total columns on the combined statements are captioned "(Memorandum Only)" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - CASH AND INVESTMENTS

Cash Deposits

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 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 at least equal to the aggregate uninsured deposits.

The State Regulatory Commissions for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2001, the District's cash deposits had a bank balance and a carrying balance as follows:

	Bank <u>Balance</u>	Carrying Balance
Insured deposits	<u>\$ 74,964</u>	\$ 3,028

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

- . 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 mutual funds
- . Guaranteed investment contracts
- . Local government investment pools

Investments in local government investment pools or in money market funds are recorded at fair value and are not categorized because they are not evidenced by securities that exist in physical or book entry form.

As of December 31, 2001, the District had invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2001, the \$21,307 invested in COLOTRUST PLUS+.

Cash and investments amounted to \$24,335 as of December 31, 2001.

Investment Held by Trustee

At December 31, 2001, the District had \$490,631 in a construction reserve account held by the paying agent invested in the First American Treasury Obligations Fund. The Treasury Fund invests in U.S. Treasury obligations with maturities of 397 days or less, repurchase agreements and reverse repurchase agreements collateralized such U.S. Treasury obligations and STRIPs.

NOTE 4 – PROPERTY

An analysis of changes in property for the year ended December 31, 2001 follows:

	Balance at January 1,			Balance at December 31,	
	2001	Additions	Retirements	2001	
Construction in progress	\$7,719,989	\$1,477,648	\$3,604,588	\$ 5,593,049	

The District's Service Plan requires the transfer of water lines and assets, when completed, to the Denver Water Board under the City's total service contract. Sanitation lines and assets are to be transferred when completed to Ken-Caryl Ranch Water and Sanitation District. Acquired easements are for the benefit and ownership of these two utilities. Streets are to be transferred to the City of Littleton for perpetual maintenance and ownership. Upon final acceptance of the improvements by the accepting governmental entity, the District will remove the costs from its General Fixed Asset Account Group.

Final acceptance can range from one to five years after completion of construction.

The District is obligated to maintain certain storm drainage and reservoir safety improvements transferred to the above entities.

Offsite water improvements constructed for the benefit of the City of Littleton as required by the Service Plan approved by the City of Littleton, have not been capitalized.

In addition to the above assets, the District was assigned ownership interests in a portion of certain water rights by Shea Homes Limited Partnership (see Note 8) which rights the District accepted based on their value to the aesthetic integrity of the associated storage reservoirs within the District. Other entities own portions of the applicable water rights and may exercise their rights in a manner contrary to the interests of the District.

NOTE 5 – LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2001:

	Balance at December 31, 2000	Additions	Balance at December 31, 2001	
1000 C O D 1			ф. 2 70,000	D
1999 G.O. Bonds	\$ 8,245,000	\$ -	\$ 270,000	\$ 7,975,000
Developer operations and	•			
maintenance funding	110,132	4,763	-	114,895
Accrued interest	6,164	3,169	-	9,333
Election advance note	639,318	223,986	-	863,304
Accrued interest	30,993	56,760	1,083	86,670
Refunding advance note	255,000	270,000	-	525,000
Accrued interest	1,309	15,540	-	16,849
Project funding advance	-	909,361	~	909,361
Accrued interest	_	17,444		17,444
	\$ 9,287,916	\$ 1,501,023	\$ 271,083	\$ 10,517,856

The detail of the District's long-term debt is as follows:

\$8,500,000 Limited Tax General Obligation Bonds Series 1999, dated May 1, 1999. The bonds are term bonds in the amount of \$8,500,000 due December 1, 2018, bearing interest at 5.8% per annum payable semiannually on June 1 and December 1. The bonds are subject to mandatory redemption as described in the annual debt service requirements to maturity schedule below.

The Series 1999 bonds are subject to optional redemption annually on December 1, 2006 through December 1, 2018 beginning December 1, 2006 through May 31, 2007 with a 1.5% redemption premium, June 1, 2007 through November 30, 2007 with a 1% redemption premium, December 1, 2007 through May 31, 2008 with a .5% redemption premium and June 1, 2008 and thereafter with no redemption premium.

The bonds are limited tax general obligations of the District, payable from ad valorem taxes to be imposed, at a total rate not to exceed 47 mills and specific ownership tax revenue. The 2002 levy was set at 50 mills and includes a one-time mill levy of 4.115 mills to recapture an abatement and refund of \$44,995, and was adjusted for changes in the residential assessment rate.

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

The bonds are additionally secured by a Reserve Fund in an amount equal to one-half of the maximum amount of debt service coming due on the bonds in any year. As of December 31, 2001, the Reserve Fund was provided by an irrevocable letter of credit issued by J.F. Shea Co., Inc. in the amount of \$188,690. The letter of credit expires June 1, 2002 and can be extended at that time. A Reserve Fund is required until a coverage ratio of certain Debt Service Fund revenue exceed 1.20% of the maximum annual debt service requirement. The 2001 coverage ratio was approximately 69%.

The District's ability to pay principal of and interest on the bonds when due will be dependent in part upon the levying of taxes and in part upon certain other sources of security, including certain funds advanced by J.F. Shea Co., Inc.

Reimbursement Agreement

The District's revenue are not currently sufficient to pay the costs of operating and maintaining the District and the debt service requirements of the bonds for several years.

J.F. Shea Co., Inc. and the District entered into a Reimbursement Agreement (Reimbursement Agreement) under which J.F. Shea Co., Inc. agreed to advance sufficient funds and/or provide a qualifying letter of credit so that the requirements of the Reserve Fund will be met. The obligation of the District to repay the amounts advanced by J.F. Shea Co., Inc. under the Reimbursement Agreement constitutes a limited tax general obligation of the District but is subordinate to the Bonds. The District has allocated its remaining general obligation borrowing authority in the amount of \$1,700,000 to this Reimbursement Agreement for election advances.

An advance which is used to pay interest or premium on the bonds and all amounts advanced by Shea for the Reserve Fund shall be referred to as an Election Advance. An advance which is used to pay principal of the bonds shall be referred to as a Refunding Advance.

The District agreed that each Refunding Advance will bear interest at the rate of 5.6% per annum and that each Election Advance will bear interest at the rate of 7.5% per annum. The District is to pay to J.F. Shea Co., Inc. from the District's maximum Debt Service Mill Levy and specific ownership taxes, the amount of each advance and accrued interest thereon, provided that the District's obligations to J.F. Shea Co., Inc. are subordinate to its obligations in connection with the bonds. The District shall not impose development fees, including without limitation, availability of service or facilities charges, system development or similar fees, on Shea or any other developer or builder for the purpose of reimbursing Election Advances and Refunding Advances. Each advance, together with any accrued but unpaid interest thereon, and interest on the unpaid amount shall be due in full within twenty years from the date of such advance. To the

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

extent permitted by law, interest on unpaid advances and unpaid interest shall bear interest at the rate on the election advance and refunding advance, respectively. Payments on advances are to be applied first to interest due on election advances, second to principal due on election advances, third to interest due on refunding advances and fourth to principal due on refunding advances.

Operations and Maintenance Funding

The District received operation and maintenance funding advances from J.F. Shea Co., Inc. in the amount of \$4,763 for the year ended December 31, 2001. The advance accrues interest at a rate of 7.5% annually. It is the Board's intention to repay these advances to the Developer when and if the funds become available after meeting debt service obligations related to the 1999 bond issue. Advances not paid by December 31, 2029 will be discharged at which time the District will have no obligation to repay the remaining unpaid balance. The District's obligation to reimburse J.F. Shea Co., Inc. is subject to annual budget and appropriation.

Funding

On December 20, 2000, the District and Shea Homes Limited Partnership (Developer) entered into a project funding agreement. The Developer has agreed to fund actual costs of construction and installation of certain improvements in an amount not to exceed \$2,298,736 plus negotiation and administration costs. Such improvements are anticipated to be completed on or before September 30, 2002. All funds advanced by the Developer are considered to be a contractual obligation subject to annual appropriation and will be repaid as follows:

- First from the proceeds of any publicly traded bonds;
- Second, from a debt service mill levy of 47 mills and associated specific ownership tax after payment of the District's outstanding general obligation bonds and associated Developer advances (election and refunding advances). Payments made to the Developer shall apply first to unpaid interest, then to the principal.

Developer advances shall accrue interest at the rate of 7.5% from the date of the advance. Until all amounts have been repaid to the Developer, the District shall not issue any additional bonds without the Developer's prior written consent. The agreement terminates on December 31, 2020.

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

The annual debt service requirements to maturity of the bonds are as follows:

	<u>Principal</u>		<u>Interest</u>		 Total	
2002	\$	290,000	\$	462,550	\$ 752,550	
2003		305,000		445,730	750,730	
2004		325,000		428,040	753,040	
2005		340,000		409,190	749,190	
2006		360,000		389,470	749,470	
Thereafter	****	6,355,000		2,641,030	 8,996,030	
	\$	7,975,000	\$	4,776,010	\$ 12,751,010	

Due to the subordinate nature of the reimbursement agreements and computational provisions before repayment can begin, the annual debt service requirements of the reimbursement agreements are not currently determinable.

Debt Authorization

Electors within the District have authorized \$10,200,000 of general obligation bonds. As of December 31, 2001, the District had issued \$8,500,000 of General Obligation bonds. The remaining authorization is reserved for reimbursement of developer election advances.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND OPERATING TRANSFERS

The following schedules reflect the District's interfund receivables and payables as of December 31, 2001.

	Due from	Due to	
General Fund Capital Projects Fund	\$ 8,222	\$ - <u>8,222</u>	
Total	\$ 8,222	\$ 8,222	

NOTE 7 - COMMITMENTS

Ken-Caryl Ranch Water and Sanitation District - Intergovernmental Agreement

The land comprising the District has also been included in the Ken-Caryl Ranch Water and Sanitation District (Ken-Caryl) by agreement. The agreement requires the District to construct and acquire various facilities and improvements for sanitary sewer service which shall be conveyed to Ken-Caryl at such time as Ken-Caryl shall require. Upon acceptance, Ken-Caryl will maintain and operate all sewer facilities and improvements.

Intergovernmental Agreement

On November 11, 1998, the District entered into an agreement with South Suburban Park and Recreation District (South Suburban) in which the District has agreed to construct or acquire approximately \$1,400,000 of regional recreational improvements no later than December 31, 2003. These regional improvements will be conveyed to South Suburban. The District will be responsible for maintenance of these regional improvements. South Suburban has agreed to pay the District on March 1 of each year 90% of all real property tax generated from its operation and maintenance mill levy collected from real property located in the District's boundaries during the previous calendar year for maintenance of the regional improvements. The financial obligations of the parties are subject to annual review and appropriation. The agreement is effective for a 15 year period. Local recreational improvements will be funded, owned and maintained by the District. It is anticipated that the Trailmark Master Homeowners Association will maintain any of the local recreation landscape improvements along right of ways.

Construction Commitments

As of December 31, 2001, the District had an unexpended construction related contract commitments of approximately \$1,103,000.

TrailMark Homeowner's Association, Inc. - Irrigation Agreement

On June 1, 2001, the District entered into an Irrigation Agreement with the TrailMark Homeowner's Association, Inc. (the "Association"), in which the District agreed to provide irrigation water to the property within the District and maintain the irrigation equipment, fixtures and lines, including repair and replacement of same in exchange for the Association's payment of its share of the water, associated utility costs, and maintenance of the irrigation equipment, fixtures and lines located within the Tracts, including repair and replacement of same. The District shall maintain its equipment in a manner so as to efficiently and economically meet its obligations under this Agreement.

NOTE 7 – COMMITMENTS (CONTINUED)

TrailMark Homeowner's Association, Inc. - Maintenance Agreement

On September 17, 2001, the District entered into a Maintenance Agreement with the Association in which the District agreed to perform or contract to have performed the maintenance, repair and replacement of the landscape improvements within the boundaries of the District and in which the Homeowner's Association agreed to pay for a portion of those landscape maintenance costs attributable to it. The parties agreed to enter into an annual contract for basic monthly maintenance, repair, and replacement services. In the event of emergency repairs, the District shall have the authorization to complete those repairs and shall charge the Homeowner's Association an administrative fee which shall be three percent of the total monthly amount billed to the Homeowner's Association.

Notice of Claim - Denver Water Board

On or about, February 20, 2002, in accordance with Section 24-10-109, C.R.S., the District filed a notice of claim against the Denver Water Board regarding water damage to TrailMark Parkway (the "Notice"). The damage to TrailMark Parkway was caused by water leakage from public water improvements owned, operated and maintained by the Denver Water Board. The Notice indicated that the damages are estimated to be in excess of \$20,000. The Denver Water Board has not indicated their response to the District's claim.

NOTE 8 - RELATED PARTY TRANSACTIONS

Three of the members of the Board of Directors of the District as of December 31, 2001 were employed by Shea Homes limited Partnership (Shea Homes). Two of the members of the Board of Directors as of December 31, 2001 were associated with Simeon Residential Holdings II LLC, which is providing certain development services to Shea Homes pursuant to a development management agreement. Shea Homes is the major property owner within the District.

The District and Shea Homes have entered into a Project Funding and Acquisition Agreement whereby Shea Homes will construct certain public improvements on behalf of the District. During 2001, the District did not acquire infrastructure improvements from Shea Homes, however Shea Homes did make cash advances to the District during the year for infrastructure improvements.

NOTE 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.

NOTE 9 - RISK MANAGEMENT (CONTINUED)

The District is one of approximately 289 special districts which are members of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2001. The Pool is an organization created by intergovernmental agreement to provide property and general liability, automobile physical damage and liability, public officials liability and boiler and machinery coverage to its members. The Pool provides coverage for property claims up to the values declared and liability coverage for claims up to \$1,000,000. 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 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.

A summary of the most current information available of audited financial information for the Pool as of and for the year ended December 31, 2000 is as follows:

Assets	\$ 4,700,718
Liabilities Capital and surplus	\$ 2,111,675 2,589,043 \$ 4,700,718
Revenue Underwriting expenses Underwriting gain Other income Net income	\$ 1,997,286 1,445,848 551,438 256,976 \$ 808,414

There is no current or long-term debt outstanding, the above liabilities represent incurred claims and an estimated liability for incurred but not reported claims at December 31, 2000.

NOTE 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.

NOTE 10 – TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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.

At an election on November 2, 1993, the District voters approved the collection and spending of up to \$540,000 annually of development fees, and \$180,000 annually of capital improvement fees after the forty-first (41st) certificate of occupancy is issued for single family residences, with both revenues in excess of any limits imposed by TABOR.

At an election on November 3, 1998, the District voters approved an increase in District taxes to \$500,000 annually for coverage of operations, maintenance and other expenses without regard to any spending, revenue-raising or other limitation contained within Article X, Section 20 of the Colorado Constitution or Section 29-1-301, Colorado Revised Statutes.

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 require judicial interpretation.

SUPPLEMENTAL INFORMATION

TRAILMARK METROPOLITAN DISTRICT SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY December 31, 2001

\$8,500,000 Limited Tax General Obligation Bonds Series 1999 Dated May 1, 1999

Interest Rate 5.8%

Interest Nate 5.0 /0					
	-				
	Due	Jι	ine 1 and		
December 1		D	ecember 1	Total	
\$	290.000	\$	462.550	\$	752,550
Ψ	-	4		Ψ	750,730
	325,000		428,040		753,040
	340,000		409,190		749,190
	360,000		389,470		749,470
	385,000		368,590		753,590
	400,000		346,260		746,260
425,000		323,060			748,060
	450,000		298,410		748,410
	475,000		272,310		747,310
	510,000		244,760		754,760
	535,000		215,180		750,180
	570,000		184,150		754,150
	595,000		151,090		746,090
	635,000		116,580		751,580
	670,000	79,750			749,750
	705,000	40,890			745,890
\$ 7	7,975,000	\$	4,776,010	\$	12,751,010
	Dec.	Principal Due December 1 \$ 290,000 305,000 325,000 340,000 360,000 400,000 425,000 475,000 475,000 510,000 535,000 570,000 595,000 635,000 670,000 705,000	Principal Ju Due Ju December 1 Do \$ 290,000 \$ 305,000 325,000 340,000 360,000 400,000 425,000 475,000 510,000 535,000 570,000 595,000 635,000 670,000 705,000	Principal Due December 1Interest Due June 1 and December 1\$ 290,000 305,000 325,000 340,000 389,470 385,000 425,000 425,000 450,000 535,000 570,000 635,000 635,000 705,000Interest Due June 1 and December 1\$ 290,000 445,730 445,730 346,250 3445,730 445,730 445,730 445,730 346,260 323,060 4475,000 535,000 450,000 184,150 151,090 116,580 705,000\$ 10,000 570,000 79,750 705,000\$ 10,000 79,750 705,000	Principal Due December 1 Interest Due June 1 and December 1 \$ 290,000 \$ 462,550 \$ 305,000 \$ 445,730 \$ 325,000 \$ 428,040 \$ 409,190 \$ 360,000 \$ 389,470 \$ 385,000 \$ 368,590 \$ 400,000 \$ 346,260 \$ 450,000 \$ 298,410 \$ 475,000 \$ 272,310 \$ 510,000 \$ 244,760 \$ 535,000 \$ 151,090 \$ 595,000 \$ 16,580 \$ 670,000 \$ 79,750 \$ 705,000 \$ 40,890 \$ 79,750 \$ 705,000 \$ 40,890 \$ 70,000 \$ 79,750 \$ 705,000 \$ 70,000

TRAILMARK METROPOLITAN DISTRICT SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED December 31, 2001

December 31, 200

	Asse	Prior Year ssed Valuation Current Year	Mills	r	Total Prop	erty	Taxes	Percent Collected
December 31,	Prop	erty Tax Levy	Levied		Levied		ollected	to Levied
1997	\$	268,030	30.000	\$	8,041	\$	8,041	100.00%
1998	\$	311,200	31.910	\$	9,930	\$	9,930	100.00%
1999	\$	1,098,630	55.000	\$	60,425	\$	60,403	99.96%
2000	\$	1,574,450	55.000	\$	86,595	\$	86,586	99.99%
2001	\$	5,166,120	55.000	\$	284,136	\$	277,122	97.63%
Estimated for the year ending December 31,								
2002	\$	10,924,580	58.547 *	\$	684,556			

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.

^{*} A one-time mill levy of 4.115 mills was included in 2002 to recover abatements and refunds, and the 2002 mill levy was also adjusted for changes in the residential assessment rate.

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