

**TrailMark Metropolitan District
Financial Statements**

December 31, 2002

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INDEPENDENT AUDITOR'S REPORT

Board of Directors TrailMark Metropolitan District

We have audited the accompanying general purpose financial statements of the TrailMark Metropolitan District (the "District"), as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District at December 31, 2002, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental information is presented for additional analysis and is not a required part of the financial statements of the District. The 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.

McMahan and Associates, LLC.

McMahan and Associates, L.L.C.
February 21, 2003

Performing services for local governments throughout Colorado

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FINANCIAL STATEMENTS

TrailMark Metropolitan District
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002

	Governmental Fund Types			Account Groups		Total (Memorandum Only)
	General Fund	Debt Service Fund	Capital Projects Fund	General Fixed Assets	Long-Term Debt	
Assets and Other Debits:						
Assets:						
Cash and investments	16,562	25,600	77,952	-	-	120,114
Property taxes receivable	136,004	799,015	-	-	-	935,019
Other receivables	12,196	565	300	-	-	13,061
Due (to)/from other funds	8,221	-	(8,221)	-	-	-
Property	-	-	-	5,884,803	-	5,884,803
Total Assets	172,983	825,180	70,031	5,884,803	-	6,952,997
Other Debits:						
Amount available in Debt Service Fund	-	-	-	-	26,165	26,165
Amount to be provided for retirement of general long-term debt	-	-	-	-	10,558,921	10,558,921
Total Other Debits	-	-	-	-	10,585,086	10,585,086
Total Assets and Other Debits	172,983	825,180	70,031	5,884,803	10,585,086	17,538,083
Liabilities and Equity:						
Liabilities:						
Accounts and retainage payable	20,950	-	17,952	-	-	38,902
Deferred property tax revenue	136,004	799,015	-	-	-	935,019
Long-term obligation	-	-	-	-	10,585,086	10,585,086
Total Liabilities	156,954	799,015	17,952	-	10,585,086	11,559,007
Equity:						
Investment in general fixed assets	-	-	-	5,884,803	-	5,884,803
Fund balance:						
Reserved	8,700	-	-	-	-	8,700
Unreserved	7,329	26,165	52,079	-	-	85,573
Total Equity	16,029	26,165	52,079	5,884,803	-	5,979,076
Total Liabilities and Equity	172,983	825,180	70,031	5,884,803	10,585,086	17,538,083

The accompanying notes are an integral part of these financial statements.

TrailMark Metropolitan District
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
All Governmental Fund Types
For the Year Ended December 31, 2002

	Governmental Fund Types			Total (Memorandum Only)
	General Fund	Debt Service Fund	Capital Projects Fund	
Revenues:				
Property taxes	89,793	570,936	-	660,729
Specific ownership taxes	-	80,569	-	80,569
Developer advance	19,345	185,634	-	204,979
Net investment income	2,554	3,222	3,795	9,571
Intergovernmental	24,145	-	-	24,145
HOA reimbursement	55,968	-	-	55,968
Park and recreation fees	106,513	-	-	106,513
Total Revenues	298,318	840,361	3,795	1,142,474
Expenditures:				
Current:				
Accounting and audit	4,100	-	-	4,100
District management	42,160	-	-	42,160
Legal	25,497	-	-	25,497
Insurance	2,916	-	-	2,916
Office supplies	5,267	-	-	5,267
Maintenance and repairs	145,299	-	-	145,299
Other	2,735	1,325	-	4,060
Billing fees	14,256	-	-	14,256
County Treasurer's fees	1,396	8,877	-	10,273
Utilities	42,663	-	-	42,663
Capital outlay	-	-	291,754	291,754
Total Current	286,289	10,202	291,754	588,245
Debt Service:				
Principal	-	290,000	-	290,000
Interest	-	462,550	-	462,550
Paying agent fees	-	2,750	-	2,750
Developer reimbursement	-	49,259	-	49,259
Total Debt Service	-	804,559	-	804,559
Total Expenditures	286,289	814,761	291,754	1,392,804
Excess (Deficiency) of Revenues Over Expenditures	12,029	25,600	(287,959)	(250,330)
Fund Balance - Beginning of Year	4,000	565	340,038	344,603
Fund Balance - End of Year	16,029	26,165	52,079	94,273

The accompanying notes are an integral part of these financial statements.

TrailMark Metropolitan District
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
All Governmental Fund Types
For the Year Ended December 31, 2002

	General Fund			Debt Service Fund			Capital Projects Fund		
	Amended Budget	Actual	Variance Favorable (Unfavorable)	Amended Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Property taxes	93,034	89,793	(3,241)	591,522	570,936	(20,586)	-	-	-
Specific ownership taxes	-	-	-	30,000	80,569	50,569	-	-	-
Developer advance	-	19,345	19,345	188,879	185,634	(3,245)	442,765	-	(442,765)
Net investment income	5,000	2,554	(2,446)	2,500	3,222	722	-	3,795	3,795
Intergovernmental	15,000	24,145	9,145	-	-	-	-	-	-
HOA reimbursement	60,000	55,968	(4,032)	-	-	-	-	-	-
Park and recreation fees	35,000	106,513	71,513	-	-	-	-	-	-
Total Revenues	208,034	298,318	90,284	812,901	840,361	27,460	442,765	3,795	(438,970)
Expenditures:									
Current:									
Accounting and audit	4,000	4,100	(100)	-	-	-	-	-	-
District management	26,000	42,160	(16,160)	-	-	-	-	-	-
Legal	22,100	25,497	(3,397)	-	-	-	-	-	-
Insurance	2,050	2,916	(866)	-	-	-	-	-	-
Office supplies	3,000	5,267	(2,267)	-	-	-	-	-	-
Maintenance and repairs	85,000	145,299	(60,299)	-	-	-	-	-	-
Other	5,000	2,735	2,265	-	1,325	(1,325)	-	-	-
Billing fees	-	14,256	(14,256)	-	-	-	-	-	-
County Treasurer's fees	1,395	1,396	(1)	8,873	8,877	(4)	-	-	-
Utilities	30,000	42,663	(12,663)	-	-	-	-	-	-
Contingency	96,455	-	96,455	68,577	-	68,577	-	-	-
Capital outlay	-	-	-	-	-	-	979,856	291,754	688,102
Total Current	275,000	286,289	(11,289)	77,450	10,202	67,248	979,856	291,754	688,102
Debt Service:									
Principal	-	-	-	290,000	290,000	-	-	-	-
Interest	-	-	-	462,550	462,550	-	-	-	-
Paying agent fees	-	-	-	5,000	2,750	2,250	-	-	-
Developer reimbursement	-	-	-	-	49,259	(49,259)	-	-	-
Total Debt Service	-	-	-	757,550	804,559	(47,009)	-	-	-
Total Expenditures	275,000	286,289	(11,289)	835,000	814,761	20,239	979,856	291,754	688,102
Excess (Deficiency) of Revenues Over Expenditures	(66,966)	12,029	101,573	(22,099)	25,600	7,221	(537,091)	(287,959)	(1,127,072)
Fund Balance - Beginning of Year	-	4,000	4,000	1,775	565	(1,210)	537,091	340,038	(197,053)
Fund Balance - End of Year	(66,966)	16,029	105,573	(20,324)	26,165	6,011	-	52,079	(1,324,125)

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002**

1. Summary of Significant Accounting Policies

A. Organization

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

The amended service plan approved by the City 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 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 amount 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.

B. Reporting Entity

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.

TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)

B. Reporting Entity (continued)

The District is not financially accountable for any other organization. The District is not a component unit of any other primary governmental entity.

C. 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.

(1) 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

(2) 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 Debt Account Group – This group of accounts is established to account for all long-term obligations, including claim liabilities, of the District.

D. 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 (60 days) 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.

E. Pooled Cash

The District follows the practice of pooling cash and investments of excess funds to maximize interest 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 to the participating funds based on each fund's average equity balance in pooled cash.

F. Property

Property is stated at cost except for those assets contributed which are stated at estimated 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.

TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)

G. Budgets

As required by Colorado statutes, the District followed the following time table in approving and enacting a budget for the ensuing years:

- (1) For the 2002 budget year, prior to August 25, 2001, the County Assessor sent to the District the assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10, only once by a single notification to the District.
- (2) On or before October 15, 2001, the District's Manager submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) For the 2002 budget, prior to December 15, 2001, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (4) After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopted the proposed budget and an appropriating resolution which legally appropriated expenditures for the upcoming year. The District may amend the budget upon satisfying notice and hearing requirements.
- (5) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of the estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2001 were collected in 2002 and taxes certified in 2002 will be collected in 2003 by the District. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 15th.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end.

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 revenues are recorded as revenue in the year they are available or collected.

On January 21, 2003, the District amended the 2002 Debt Service Fund appropriation from \$766,423 to \$835,000 and the General Fund appropriation from \$183,902 to \$287,000.

**TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)**

H. Encumbrances

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.

I. Reserved Fund Balance

Article X, Section 20 of the Constitution of the State of Colorado requires the District to establish Emergency Reserves. \$8,700 of the General Fund balance has been reserved in compliance with this requirement.

J. 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.

2. Cash and Investments

A. 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 of held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

The difference between the bank and carrying balances is items that had not cleared the bank at year-end. At December 31, 2002, the District's cash deposits were entirely insured and had a bank balance and a carrying balance as follows:

	Bank Balance	Carrying Balance
Cash with County Treasurer	\$ -	6,462
Insured deposits	21,748	15,624
Total	\$ 21,748	22,086

B. Investment Pool

Investments in local government investment pools are recorded at fair value and are not categorized as to level of credit risk because they are not evidenced by securities that exist in physical or book entry form.

TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)

B. Investment Pool (continued)

As of December 31, 2002, the District had \$98,029 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 the 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.

3. Property and Infrastructure Improvements

An analysis of the changes in property for the year ended December 31, 2002 follows:

	<u>Balance</u> <u>1/1/2002</u>	<u>Additions</u>	<u>Transfer to</u> <u>Other</u> <u>Government</u>	<u>Balance</u> <u>12/31/2002</u>
Construction in progress	\$ 5,593,049	291,754	-	5,884,803
Total	<u>\$ 5,593,049</u>	<u>291,754</u>	<u>-</u>	<u>5,884,803</u>

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. Certain park and recreation improvements are to be transferred to South Suburban Park and Recreation District pursuant to agreement (see note 8C). 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 (the "Developer") 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.

TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)

4. Long-Term Obligations

The following is an analysis of the changes in long-term obligations during 2002:

	Balance 1/1/2002	Additions	Retirements	Balance 12/31/2002
1999 G.O. Bonds	\$ 7,975,000	-	(290,000)	7,685,000
Developer operations and maintenance funding	134,240	-	-	134,240
Accrued interest	30,262	10,068	-	40,330
Election advance note	863,304	185,634	-	1,048,938
Accrued interest	86,670	72,911	(49,259)	110,322
Refunding advance note	525,000	-	-	525,000
Accrued interest	16,849	29,400	-	46,249
Project funding advance	909,361	-	-	909,361
Accrued interest	17,444	68,202	-	85,646
Total	\$ 10,558,130	366,215	(339,259)	10,585,086

The detail of the outstanding long-term obligations at December 31, 2002 is as follows:

A. Series 1999 Bonds

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 debt service levy was set at 54.146 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.

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, 2002, the Reserve Fund was provided by an irrevocable letter of credit issued by J.F. Shea Co., Inc., which is the general partner of the Developer, in the amount of \$188,690. The letter of credit expires December 1, 2003 and is renewable at that time. A Reserve Fund is required until a coverage ratio of certain Debt Service Fund revenue exceeds 1.20 of the maximum annual debt service requirement. The 2002 coverage ratio was approximately 0.91.

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. pursuant to agreement (see Note 4.D.)

TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)

B. Debt Service Requirements

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2007	385,000	368,590	753,590
2008-2012	2,260,000	1,484,800	3,744,800
2013-2017	3,005,000	746,750	3,751,750
2018	705,000	40,890	745,890
Total	<u>\$ 7,685,000</u>	<u>4,313,460</u>	<u>11,998,460</u>

C. Debt Authorization

At an election held November 2, 1993, the District's voters approved an increase of the District's debt by \$4,500,000 in order to fund the construction of certain improvements in the District by the issuance of general obligation bonds or other evidence of indebtedness. In accordance with a 1998 Service Plan Amendment, the District was authorized to issue additional debt. At an election held November 3, 1998, the District's voters approved a re-authorization and increase of the District's 1993 debt to \$10,200,000 for the financing and refinancing of the construction of the District improvements by the issuance of general obligation bonds, notes, contracts, loan agreements, or other forms of indebtedness. As of December 31, 2002, the District had issued \$8,500,000 of general obligation bonds. The remaining authorization is reserved for reimbursement of developer election advances.

D. Reimbursement Agreement

The District's revenue is 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 to provide a qualifying letter of credit so that the requirements of the Reserve Fund will be met for the General Obligation Bonds. 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.

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. 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 principal of the bonds shall be considered a refinancing and shall be referred to as a Refunding Advance.

TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)

D. Reimbursement Agreement (continued)

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 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. During 2002, the District paid \$49,259 on the advances, which was applied to the interest on election advances.

E. Operations and Maintenance Funding

The District recognized operation and maintenance funding advances from the Developer in the amount of \$12,016 for the year ended December 31, 2002. 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. If the 1998 Advances are not paid by December 31, 2028 and the 1999 Advances are not paid by December 31, 2029, such unpaid amounts shall be discharged and from and after such respective dates, the Developer shall have no right to receive such amounts and the District shall have no obligation to pay such amounts. The District's obligation to reimburse the Developer is subject to annual budget and appropriation.

F. Project Funding Agreement

On December 20, 2000, the District and the 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. 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 simple 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. The District's obligation to reimburse the Developer is subject to annual budget and appropriation.

TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)

5. Related Party Transactions

Three members of the Board of Directors are officers or employees of owners (or affiliated entities) of property within the District. These members may have conflicts of interest with respect to certain transactions which come before the Board

6. 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 one of approximately 289 special districts which are members of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2002. 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, 2001 is as follows:

Assets	<u>\$ 5,292,022</u>
Liabilities	\$ 2,465,928
Capital and surplus	<u>2,826,094</u>
Total	<u>\$ 5,292,022</u>
Revenue	\$ 3,005,391
Underwriting expenses	<u>2,764,957</u>
Underwriting gain	240,434
Investment income	235,141
Dividend	<u>(91,682)</u>
Net income	<u>\$ 383,893</u>

7. Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, referred to 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.

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.

TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)

7. Tax, Spending and Debt Limitations (continued)

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's 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's 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 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.

8. Commitments

A. Intergovernmental Subdivision Improvement Agreements

The District has entered into Intergovernmental Subdivision Improvement Agreements with the City of Littleton in order to provide infrastructure improvements within the District's boundaries.

B. 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.

C. South Suburban Park and Recreation District 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. It is contemplated that the improvements will have been constructed, conveyed to, and accepted by South Suburban by December 31, 2003. The District will be responsible for maintenance of the 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.

**TrailMark Metropolitan District
Notes to the Financial Statements
December 31, 2002
(Continued)**

D. 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, including certain property owned by the Association, 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 property owned by the Association, 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.

E. 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, which includes property owned by the Association, and in which the Association agreed to pay for a portion of that 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 Association an administrative fee which shall be three percent of the total monthly amount billed to the Association.

F. 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 District filed an Amended Notice of Claim (the "Amended Notice") with the Denver Water Board on January 9, 2003, providing updated information concerning the cost of the repairs. The Amended Notice indicates that the District received a bid to repair the damage to the roadway of approximately \$35,000. In addition, the District put the Denver Water Board on notice that it has incurred additional costs and expenses associated with the damage to the road. The Denver Water Board has not indicated their response to the District's claim.

G. Denver Botanic Gardens Reserve Fund

Pursuant to an agreement between the Developer as successor to First City Realty Investment Corporation, the Association, Denver Botanic Gardens (the "Gardens"), and the District, entered into in December 1997, the District has reserved \$25,000 for the sole benefit of the Gardens to be withdrawn by the Gardens to pay the costs of maintenance work on Ponds A, B, and G and the Stormwater Diversion Structures not performed by, but required of the District under the terms of the agreement.

SUPPLEMENTAL INFORMATION

TrailMark Metropolitan District
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected
December 31, 2002

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Tax		Percent Collected to Levied
			Levied	Collected	
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	284,137	277,122	97.53%
2002	10,924,580	62.662	684,556	660,729	96.52%
Estimated for 2003	15,970,390	58.547	935,018		

NOTE:

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

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.

TrailMark Metropolitan District
Schedule of Debt Service Requirements to Maturity
December 31, 2002

\$8,500,000 Limited Tax General Obligation Bonds Series 1999 Interest Rate 5.8%			
Year Ending December 31,	Principal	Interest	Total
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
2007	385,000	368,590	753,590
2008	400,000	346,260	746,260
2009	425,000	323,060	748,060
2010	450,000	298,410	748,410
2011	475,000	272,310	747,310
2012	510,000	244,760	754,760
2013	535,000	215,180	750,180
2014	570,000	184,150	754,150
2015	595,000	151,090	746,090
2016	635,000	116,580	751,580
2017	670,000	79,750	749,750
2018	705,000	40,890	745,890
Total	7,685,000	4,313,460	11,998,460