

**WOODMEN HEIGHTS  
METROPOLITAN DISTRICT NO. 1**

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

**For the Year Ended December 31, 2005**

**And**

**Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Woodmen Heights Metropolitan District No. 1

We have audited the accompanying financial statements of the governmental activities and each major fund of Woodmen Heights Metropolitan District No. 1 (the District) as of and for the year ended December 31, 2005. 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 Woodmen Heights Metropolitan District No. 1 at December 31, 2005 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 1 to the financial statements, the District is in its start-up year and is dependent upon future development within the Woodmen Heights development project, a project encompassing three metropolitan districts and advances from entities controlled by members of the District's Board for operating funds. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 2 through 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



May 18, 2006

# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2005. This information is presented in conjunction with the audited basic financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2005

- This was the first year for Woodmen Heights Metropolitan District 1 therefore there is no yearly comparison.
- The District did not collect any facility fees.
- The District was issued a bond fund in the face amount of \$29,820,000 for construction, improvements and bond interest on October 20, 2005.

### 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 5).
- **Statement of revenues, expenses and changes in fund balances-governmental funds** - reports the District's operating and non-operating expenses and governmental funds. (See page 8).

### STATEMENT OF NET ASSETS:

	2005
<b>CURRENT ASSETS</b>	
Cash	\$ 26,660,183
Interest receivable	<u>38,920</u>
Total current assets	26,699,103
<b>NON-CURRENT ASSETS</b>	
Cash	\$ 3,730,186
Interest receivable	<u>3,832,976</u>
Total current assets	7,563,162
<b>TOTAL ASSETS</b>	<u>\$ 34,262,265</u>
<b>CURRENT LIABILITIES</b>	
Accounts payable	929,966
Accrued interest	369,894
Current portion of deferred revenue	38,920
Advances from related parties	<u>421,726</u>
Total current liabilities	1,760,506

<b>NON-CURRENT LIABILITIES</b>	
Bonds payable	29,820,000
Deferred revenue	<u>3,832,976</u>
Total current liabilities	33,652,976
<b>TOTAL LIABILITIES</b>	<u>35,413,482</u>
<b>NET ASSETS</b>	
Restricted for debt service, net of related debt	6,867,233
Unrestricted accumulated deficit	<u>(8,018,450)</u>
Total accumulated deficit	<u>(1,151,217)</u>
<b>TOTAL</b>	<u>\$ 34,262,265</u>

Since the bond funds weren't available until the latter part of the year there was only a small amount of construction performed therefore most of the funds were still available at the end of the year.

**REVIEW OF REVENUES:**

	<b>2005</b>
<b>REVENUE</b>	
Interest	\$ 33,808
Total revenues	<u>\$ 33,808</u>

The District did not collect revenues in 2005 other than interest for the bonds.

**REVIEW OF EXPENSES:**

	<b>2005</b>
Bond issuance costs	\$ 806,400
Capital outlay	3,730,186
Bank Charges	4,689
Professional fees	3,910
Miscellaneous	<u>132</u>
Total Expenditures	<u>\$ 4,545,317</u>

The expenses were \$4.5 million mainly due to the construction of the sanitary sewer outfall-west, grading, Tutt Blvd., Cowpoke Road, Sorpresa Road, engineering costs and the formation of Bond Series 2005.

**GENERAL OBLIGATION LIMITED TAX BONDS:**

	<b>2005</b>
TOTAL TAX BONDS: SERIES 2005	<u>\$ 29,280,000</u>
NET ASSETS – Beginning of year	<u>\$ —</u>
NET ASSETS – End of year	<u>\$ (1,151,217)</u>

**Debt Outstanding:**

The District issued Bond Series 2005 for \$29,820,000 in Bond Funds. The schedule (for details see pages 15-16) reflects the payments over the next 30 years using the annual mill levy of 35, infrastructure development fees, and building permit fees.

**Economic and Other Factors:**

The economy in Colorado Springs continues to grow. New construction and increase in property values has increased the District's property assessed valuation.

**Additional Financial Information:**

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in the report or wish to request additional financial information, please contact the Woodmen Heights Metropolitan District 1, Terry Schooler, District Manager at 520 East Colorado Avenue, Colorado Springs, Colorado 80903.

# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## GOVERNMENT-WIDE STATEMENT OF NET ASSETS

DECEMBER 31, 2005

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### ASSETS

#### CURRENT ASSETS

Cash	\$ 26,660,183
Current portion of note receivable	<u>38,920</u>
Total current assets	<u>26,699,103</u>

#### NONCURRENT ASSETS

Capital assets	3,730,186
Note receivable	<u>3,832,976</u>
Total noncurrent assets	<u>7,563,162</u>

TOTAL ASSETS \$ 34,262,265

### LIABILITIES AND NET ASSETS

#### CURRENT LIABILITIES

Accounts payable	\$ 929,966
Accrued interest	369,894
Current portion of deferred revenue	38,920
Advances from related parties	<u>421,726</u>
Total current liabilities	<u>1,760,506</u>

#### NONCURRENT LIABILITIES

Bonds payable	29,820,000
Deferred revenue	<u>3,832,976</u>
Total noncurrent liabilities	<u>33,652,976</u>

Total liabilities 35,413,482

#### NET ASSETS (DEFICIT)

Restricted for debt service	6,867,233
Unrestricted accumulated deficit	<u>(8,018,450)</u>
Net deficit	<u>(1,151,217)</u>

TOTAL LIABILITIES AND NET ASSETS \$ 34,262,265

See notes to financial statements.

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# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2005

	Expenses	Program Revenues		Net Revenue and Change in Net Assets Primary Government — Governmental Activities
		Charges for Services	Capital Grants and Contributions	
<b>FUNCTIONS/PROGRAMS</b>				
<b>PRIMARY GOVERNMENT</b>				
Bond issuance costs	\$ 806,400			\$ (806,400)
General government	4,042			(4,042)
Fiscal charges	4,689			(4,689)
Interest on long-term debt	<u>369,894</u>			<u>(369,894)</u>
Total primary government	<u>\$ 1,185,025</u>	<u>\$ —</u>	<u>\$ —</u>	(1,185,025)
General Revenues:				
Interest revenue				<u>33,808</u>
CHANGE IN NET ASSETS				(1,151,217)
NET ASSETS — Beginning of year				<u>—</u>
NET ASSETS — End of year				<u>\$ (1,151,217)</u>

See notes to financial statements.

# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## BALANCE SHEET — GOVERNMENTAL FUNDS DECEMBER 31, 2005

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash — restricted	\$ <u>—</u>	\$ <u>19,781,584</u>	\$ <u>6,878,599</u>	\$ <u>26,660,183</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable		\$ 929,966		\$ 929,966
Advances from related parties		<u>421,726</u>		<u>421,726</u>
Total liabilities	\$ <u>—</u>	<u>1,351,692</u>	\$ <u>—</u>	<u>1,351,692</u>
<b>FUND BALANCES</b>				
Reserved for capital projects		19,781,584		19,781,584
Reserved for debt service			6,867,233	6,867,233
Unreserved fund balance (deficit)		<u>(1,351,692)</u>	<u>11,366</u>	<u>(1,340,326)</u>
Total fund balances	<u>—</u>	<u>18,429,892</u>	<u>6,878,599</u>	25,308,491
Total liabilities and fund balances	\$ <u>—</u>	\$ <u>19,781,584</u>	\$ <u>6,878,599</u>	

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

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

3,730,186

Liabilities are not due and payable in the current period and therefore are not reported in the funds

Bonds payable

(29,820,000)

Accrued interest payable

(369,894)

Net assts (deficit) of government activities

\$ (1,151,217)

See notes to financial statements.



# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUE</b>				
Interest	\$ —	\$ 17,659	\$ 16,149	\$ 33,808
<b>EXPENDITURES</b>				
Capital outlay		3,730,186		3,730,186
Bond issuance costs			806,400	806,400
Bank charges		4,689		4,689
Professional fees	3,910			3,910
Miscellaneous	132			132
Total expenditures	<u>4,042</u>	<u>3,734,875</u>	<u>806,400</u>	<u>4,545,317</u>
DEFICIT OF REVENUES OVER EXPENDITURES	<u>(4,042)</u>	<u>(3,717,216)</u>	<u>(790,251)</u>	<u>(4,511,509)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds		22,158,477	7,661,523	29,820,000
Transfers in	4,042		7,327	11,369
Transfers out		(11,369)		(11,369)
Total other financing sources	<u>4,042</u>	<u>22,147,108</u>	<u>7,668,850</u>	<u>29,820,000</u>
NET CHANGE IN FUND BALANCES	<u>—</u>	<u>18,429,892</u>	<u>6,878,599</u>	<u>25,308,491</u>
FUND BALANCES — Beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
FUND BALANCES — End of year	<u>\$ —</u>	<u>\$ 18,429,892</u>	<u>\$ 6,878,599</u>	<u>\$ 25,308,491</u>

See notes to financial statements.

# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## RECONCILIATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2005

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NET CHANGE IN GOVERNMENTAL FUND BALANCES	\$ 25,308,491
Amounts reported for the governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated to the projects as construction in process	3,730,186
Collection of long-term debt proceeds is not reflected in the statement of activities, whereas in governmental funds it is reported as revenue	(29,820,000)
In the statement of activities, interest and charges are accrued on outstanding bonds, whereas, in governmental funds, they are reported when due	<u>(369,894)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,151,217)</u>

See notes to financial statements.

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# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## GENERAL FUND

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2005

	Budget Amounts		Actual	Variance
	Original	Final		
REVENUE	\$ —	\$ —	\$ —	\$ —
EXPENDITURES				
Professional fees	125,000	3,910	3,910	
Insurance	7,500			
Miscellaneous	6,850	397	132	265
Total	139,350	4,307	4,042	265
Deficit of revenues over expenditures	(139,350)	(4,307)	(4,042)	265
OTHER FINANCING SOURCES AND USES				
Transfers in	150,000	1,000	4,042	3,042
Net change in fund balances	\$ 10,650	\$ (3,307)	\$ —	\$ 3,307

See notes to financial statements.

# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## CAPITAL PROJECTS FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2005

	Budget Amounts		Actual	Variance
	Original	Final		
REVENUE				
Interest	\$ —	\$ 17,455	\$ 17,659	\$ 204
EXPENDITURES				
Capital outlay	12,518,530	2,455,925	3,730,186	(1,274,261)
Bank charges		960	4,689	(3,729)
Total expenditures	<u>12,518,530</u>	<u>2,456,885</u>	<u>3,734,875</u>	<u>(1,277,990)</u>
Deficit of revenues over expenditures	<u>12,518,530</u>	<u>(2,439,430)</u>	<u>(3,717,216)</u>	<u>(1,277,786)</u>
OTHER FINANCING SOURCES —				
Bond proceeds	13,000,000	22,964,000	22,158,477	(805,523)
Transfers out			(11,369)	(11,369)
Total other financing sources	<u>13,000,000</u>	<u>22,964,000</u>	<u>22,147,108</u>	<u>(816,892)</u>
Net change in fund balances	<u>\$ 481,470</u>	<u>\$ 20,524,570</u>	<u>\$ 18,429,892</u>	<u>\$ (2,094,678)</u>

See notes to financial statements.

# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## DEBT SERVICE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Interest	\$ <u>17,500</u>	\$ <u>12,109</u>	\$ <u>16,149</u>	\$ <u>4,040</u>
EXPENDITURES				
Bond issuance costs	<u>218,750</u>	<u>806,400</u>	<u>806,400</u>	
Bank charges	<u>2,400</u>			
Total	<u>221,150</u>	<u>806,400</u>	<u>806,400</u>	
Deficit of revenues over expenditures	<u>(203,650)</u>	<u>(794,291)</u>	<u>(790,251)</u>	<u>4,040</u>
OTHER FINANCING SOURCES				
Bond proceeds	<u>7,000,000</u>	<u>6,855,123</u>	<u>7,661,523</u>	<u>806,400</u>
Transfers in			<u>7,327</u>	<u>7,327</u>
Total other financing sources	<u>7,000,000</u>	<u>6,855,123</u>	<u>7,668,850</u>	<u>813,727</u>
Net change in fund balances	<u>\$ 6,796,350</u>	<u>\$ 6,060,832</u>	<u>\$ 6,878,599</u>	<u>\$ 817,767</u>

See notes to financial statements.

# WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Woodmen Heights Metropolitan District No. 1 of El Paso County, Colorado (the District) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies consistently applied in the preparation of the District's financial statements.

The District was organized to construct public improvements including road and bridge improvements, landscaping, sanitary and storm sewer, water systems, park and recreation, channel and other drainage improvements needed for the area within Woodmen Heights Metropolitan District Nos. 2 and 3. The District, along with District Nos. 2 and 3, was organized on December 2, 2004.

**Reporting Entity** — The District is governed by an elected Board of Directors. The District follows the Governmental Accounting Standard Board (GASB) accounting pronouncements that provide guidance for determining which governmental activities, organizations and functions should be included within the 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, the appointment by the primary entity of a voting majority of the component organization's governing body, the ability of the primary entity to impose its will on the component organization, a potential for the component organization to provide specific financial benefits or burdens and fiscal dependency of the component organization.

The District is not financially accountable for any other entity nor is the District a component unit of any other 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 nonfiduciary 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 Presentation** — The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the District as a going concern. As indicated in the accompanying financial statements the District is in its start-up year and is dependent upon future development within the Woodmen Heights Metropolitan project and advances from entities controlled by members of the District's Board of Directors.

**Basis of Accounting** — The financial statements of the District are accounted for on a flow of economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Program revenue per the statement of activities consists of facilities fees under the category charges for services. The fees are imposed on residential and non-residential property within the District when building permits are applied for with the County.

*Fund Accounting* — The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

*Governmental Funds* — Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The District reports the following major governmental funds:

General Fund — The general fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

Capital Projects Fund — The capital projects fund accounts for the 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.

**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.

The assets making up the public improvements have not yet been placed in service and accordingly, depreciation is not being recorded.

**Cash and Cash Equivalents** — The District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents if not restricted by the Board.

**Fair Value of Financial Instruments** — The District's financial instruments include cash and cash equivalents, accounts payable, and advances payable. The District estimates that the fair value of all financial instruments at December 31, 2005 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**Use of Estimates** — Preparation of the District's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

## 2. CAPITAL ASSETS

Capital assets largely consist of construction in process of road and bridge improvements, water and wastewater systems, drainage and landscaping. Capital asset activity for the year ended December 31, 2005 is as follows:

	Balance at January 1, 2005	Increase	Decrease	Balance at December 31, 2005
Construction in process	\$ —	\$ 3,730,186	\$ —	\$ 3,730,186

## 3. REVENUE BONDS

A summary of bonds payable is as follows:

	Balance at January 1, 2005	Increase	Decrease	Balance at December 31, 2005	Amounts Due Within One Year
Revenue Bonds Series 2005 — \$29,820,000 originally issued with 6.75 – 7.00% interest	\$ —	\$ 29,820,000	\$ —	\$ 29,820,000	\$ —

Payment of the principal and interest on the bonds will be from pledge revenues such as property taxes received for District Nos. 2 and 3; specific ownership taxes, and facility fees as District Nos. 2 and 3 develop. After the majority of properties in District Nos. 2 and 3 have been sold, homes, commercial facilities and other improvements have been constructed and the resulting 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 District Nos. 2 and 3.

The following is a summary of mandatory sinking fund payments and interest requirements on the Bonds:

<b>Year Ending December 31,</b>	<b>Sinking Fund</b>	<b>Interest</b>	<b>Total</b>
2006		\$ 2,077,088	\$ 2,077,088
2007		2,077,088	2,077,088
2008		2,077,088	2,077,088
2009		2,077,088	2,077,088
2010		2,077,088	2,077,088
2011-2015	\$ 515,000	10,363,500	10,878,500
2016-2020	3,610,000	9,840,375	13,450,375
2021-2025	9,020,000	7,911,750	16,931,750
2026-2030	<u>16,675,000</u>	<u>3,735,548</u>	<u>20,410,548</u>
<b>Total</b>	<b><u>\$ 29,820,000</u></b>	<b><u>\$ 42,236,613</u></b>	<b><u>\$ 72,056,613</u></b>

#### 4. INTERGOVERNMENTAL AGREEMENT

In 2005, the District entered into an Intergovernmental Agreement and a related Joint Funding Agreement with Woodmen Heights Metropolitan District No. 2 (District No. 2) and Woodmen Heights Metropolitan District No. 3 (District No. 3). District No. 2 and District No. 3 function as financing districts. The intent of the Agreements is for the three districts to coordinate activities with respect to the financing, construction, operation and maintenance of the public improvements necessary to serve development within the two financing districts, which is generally anticipated to consist of residential development in District No. 2 and commercial development in District No. 3.

Under the terms of the agreements, the District shall own and be responsible for managing the financing, construction, operation and maintenance of facilities and improvements within the two financing districts. This includes the issuing of Revenue Bonds, payable from tax and other revenues generated by the financing districts and paid to the District. It is the obligation of the two financing districts to fully fund the construction, operation and maintenance of these facilities and improvements with such revenues to include facility fees, property taxes and payments in lieu of taxes ("PILOT" revenues).

#### 5. NOTE RECEIVABLE

During 2005, the District entered into an Agreement for Payment in Lieu of Taxes (PILOT agreement) with a Colorado not-for-profit organization located within the boundaries of related Woodmen Heights Metropolitan District No. 3 (see Note 4). Because the District will recover the costs of infrastructure primarily through taxes assessed on property located within Districts No. 2 and No. 3, and the not-for-profit entity is exempt from payment of property taxes, the not-for-profit organization has agreed to pay the District its share of the District's initial infrastructure costs over a thirty-year period. The organization's share of costs is based on estimated infrastructure costs of \$35,989,099 multiplied by

the percentage of total District property owned by the organization. The not-for-profit organization has issued a non-recourse promissory note to the District for \$3,871,896, bearing interest at 7%, and due as follows:

<b>Year Ending December 31,</b>	
2006	\$ 38,920
2007	43,924
2008	46,996
2009	50,283
2010	53,800
2011 — 2015	330,997
2016 — 2020	464,120
2021 — 2025	650,786
2026 — 2030	912,528
2031 — 2035	<u>1,279,542</u>
<b>Total</b>	<b><u>\$ 3,871,896</u></b>

**6. JOINT USE AGREEMENT**

In 2005, the District entered into a Joint Use Agreement with a local school district to cooperate in the development and ownership of facilities in a park within the boundaries of the District. Under the terms of the agreement, the parties may construct certain specific recreational facilities outlined in the agreement within the park; the school district may also request to build additional facilities. Ownership and maintenance of a specific facility will lie with the party authorizing such construction.

**7. ADVANCES DUE RELATED PARTIES**

The District has received advances from entities controlled by the members of the District's Board of Directors. The advances are short-term, unsecured, and bear interest at 8% per annum.

**8. DEPOSITS**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government in Colorado deposit cash in eligible public depositories as determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA which allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

At December 31, 2005, the carrying amount of the District's cash was \$26,660,183. Bank balances of \$69,861 was covered by federal depository insurance and \$26,590,322 is required by Colorado Statutes to be collateralized with securities held by the pledging institution's trust department in the District's name.

**9. INTERFUND TRANSFERS**

During 2005, \$7,327 and \$4,042 was transferred from the Capital Project Funds to the Debt Service Fund and General Fund, respectively. The transfers were made to meet expenditures within these funds.

**10. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries insurance for these risks of loss. There were no claims resulting from these risks that exceeded commercial insurance coverage during 2005.

**11. TAX, SPENDING AND DEBT LIMITATIONS**

In November 1992 Colorado voters approved Amendment 1 to the state Constitution which is commonly known as the Taxpayer's Bill of Rights or the TABOR Amendment. The amendment applies to all units of local governments and limits taxes, spending, revenue, and multi-year debt (excepting bond refundings to lower interest rates and adding employees to pension plans). The District believes that it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions may not become fully understood without judicial review.