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WOODMEN HEIGHTS
METROPOLITAN DISTRICT NO. 1

Management's Discussion and Analysis
and Financial Statements

For the Year Ended December 31, 2006

And

Independent Auditors' Report

stockman kast ryan + co LLP

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, 2006. 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, 2006 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 4 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.

Stockman Kast Ryan + Co., LLP

September 14, 2007

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WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended December 31, 2006. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2006

- In 2006 net assets decreased by $1,082,706 (or approximately 94%) when compared to 2005.
- Total revenues increased to $1,002,789 during 2006, a 2,866% increase from 2005.
- Total capital expenses increased to $14.4 million in 2006 from $4.5 million in 2005.
- Net capital assets were $15.7 million in 2006 compared to $3.7 million in 2005.
- Long-term debt was $29,820,000 for 2006.

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:

	2006	**2005**	**Percent Increase (Decrease)**
Current assets	$ 13,299,526	$ 26,699,103	(50) %
Capital assets — net	15,741,939	3,730,186	322 %
Other non-current assets	3,789,052	3,832,976	(1) %
Current liabilities	1,455,388	1,760,506	(17) %
Non-current liabilities	33,609,052	33,652,976	—
Total net assets	$ (2,233,923)	$ (1,151,217)	94 %

In its second year of operations the District's total net assets reflect a 94% decrease due mostly to the debt service payments.

The net capital assets of the District increased to $15.7 million during 2006, a $12 million increase over 2005. This was due to the build out of the following infrastructure: sanitary sewer outfall, grading, and water mains on Cowpoke, Vollmer Road, Tutt, and Forest Meadows. The decrease in current and other assets reflects the expenditure of funds for the aforementioned capital projects.

REVIEW OF REVENUE:

	2006	2005	Percent Increase (Decrease)
Charges for services	$ 62,920		100 %
Interest	939,418	$ 33,808	2,719 %
Property tax	451		100 %
Total revenue	$ 1,002,789	$ 33,808	2,866 %

The increase in revenues in 2006 is due primarily to the District receiving facility fees, the PILOT payment, property tax revenues, and interest when compared to 2005; the start up year, there was only interest.

REVIEW OF EXPENSES:

	2006	2005	Percent Increase (Decrease)
Bond interest	$ 2,273,257		100 %
Bond issuance costs		$ 806,400	(100) %
Capital outlay	12,168,975	3,730,186	226 %
Bank charges	9,737	4,689	108 %
Professional fees	16,653	3,910	326 %
Insurance	8,070		100 %
Miscellaneous	15,108	132	11,345 %
Total expenditures	$ 14,491,800	$ 4,545,317	219 %

The construction of capital projects and interest payments for the bond fund comprise the majority of the $10 million increase in expenses for 2006. Construction did not start until the end of 2005, therefore the professional fees and other expenditures weren't apparent until 2006.

GENERAL OBLIGATION LIMITED TAX BONDS:

	2006	2005	Percent Increase (Decrease)
TOTAL TAX BONDS: SERIES 2005	$ 29,820,000	$ 29,820,000	—

Total tax bonds remain at 29,820,000. The District is scheduled to start making principal payments starting in 2013.

Debt Outstanding:

The District issued Bond Series 2005 for $29,820,000 in bond funds on October 20, 2005. The schedule (see pages 15-16) reflects the payments over the next 30 years using the annual mill levy of 25, infrastructure development fees, and building permit fees. On December 28, 2006 the District entered into an operations and maintenance loan agreement with Woodmen Heights O&M, LLC for the amount of $325,000 of which $43,000 was advanced immediately to cover the general fund expenses for 2006. The District will continue to draw from this loan as needed.

The District did obtain City Council approval on August 14, 2007 to amend the Service Plan to increase the existing mill levy cap of 35 to 40 (30 mills for debt service and 10 mills for O&M). This will better secure the Debt Service obligation. The 2008 Budget will reflect this increase.

Economic and Other Factors:

The District experienced significant delays with its early infrastructure construction caused by lengthy City approvals and unusually inclement weather. Without the infrastructure in the ground home building and sales were delayed. The District is still working on a revision of its development schedule and the resulting cash flows; it should be completed once the developers have updated their numbers for residential and commercial build out before the end of 2007.

In the latter part of 2006 the housing market began to reflect the national downturn in home sales. The District is located in the prime affordable home corridor and will receive a significant portion of home sales for the Colorado Springs area as the market recovers.

Additional Financial Information:

Woodmen Valley Chapel Church purchased land from Marksheffel-Woodmen Investments, LLC in June of 2007, which will increase the PILOT payment to approximately $247,593 in 2008 and payments in 2009 and thereafter will be $312,022.15 for the next 27 years.

This financial report is designed to provide the District's customers, investors and other interested parties with on overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in the report or wish to request additional financial information, please contact the Woodmen Heights Metropolitan District 1, Terry Schooler, District Manager at 455 E. Pikes Peak Avenue, Suite 100, Colorado Springs, Colorado 80903.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

ASSETS	
CURRENT ASSETS	
Cash deposits and investments	$ 12,934,046
Accounts receivable	76,302
Current portion of note receivable	43,924
Accrued interest receivable	201,069
Property taxes receivable	44,185
Total current assets	13,299,526
NONCURRENT ASSETS	
Capital assets	15,741,939
Note receivable	3,789,052
Total non-current assets	19,530,991
TOTAL ASSETS	$ 32,830,517
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 1,189,868
Accrued interest	176,411
Current portion of deferred revenue	43,924
Deferred property taxes	44,185
Advances from related parties	1,000
Total current liabilities	1,455,388
NON-CURRENT LIABILITIES	
Bonds payable	29,820,000
Deferred revenue	3,789,052
Total non-current liabilities	33,609,052
Total liabilities	35,064,440
NET ASSETS (DEFICIT)	
Restricted for debt service	4,940,365
Unrestricted accumulated deficit	(7,174,288)
Net deficit	(2,233,923)
TOTAL LIABILITIES AND NET ASSETS	$ 32,830,517

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Program Revenues — Charges for Services	Program Revenues — Capital Grants and Contributions	Net Revenue and Change in Net Assets Primary Government — Governmental Activities
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT				
General government	$ 197,053	$ 63,371		$ (133,682)
Fiscal charges	9,737			(9,737)
Interest on long-term debt	2,079,774			(2,079,774)
Total primary government	$ 2,286,564	$ 63,371	$ —	(2,223,193)
GENERAL REVENUES				
Interest earned on cash and cash equivalents				804,379
Interest earned on note receivable				336,108
Total general revenue				1,140,487
CHANGE IN NET ASSETS				(1,082,706)
NET ASSETS — Beginning of year				(1,151,217)
NET ASSETS — End of year				$ (2,233,923)

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

BALANCE SHEET — GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash deposits and investments		$ 7,968,513	$ 4,965,533	$ 12,934,046
Accounts receivable		76,302		76,302
Due from other funds		39,831		39,831
Total assets	$ —	$ 8,084,646	$ 4,965,533	$ 13,050,179
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable		$ 1,189,868		$ 1,189,868
Advances from related parties		1,000		1,000
Due to other funds	$ 39,831			39,831
Total liabilities	39,831	1,190,868	—	1,230,699
FUND BALANCES				
Reserved for capital projects		7,968,513		7,968,513
Reserved for debt service			$ 4,940,365	4,940,365
Unreserved fund balance (deficit)	(39,831)	(1,074,735)	25,168	(1,089,398)
Total fund balances	(39,831)	6,893,778	4,965,533	11,819,480
Total liabilities and fund balances	$ —	$ 8,084,646	$ 4,965,533	

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	15,741,939
Liabilities and receivables 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	(176,411)
Accrued interest receivable	201,069
Net assets (deficit) of government activities	$ (2,233,923)

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, 2006

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE				
Interest		$ 638,276	$ 301,142	$ 939,418
Charges for services			62,920	62,920
Property taxes			451	451
Total revenue	$ —	638,276	364,513	1,002,789
EXPENDITURES				
Capital outlay		12,168,975		12,168,975
Bond interest			2,273,257	2,273,257
Professional fees	16,653			16,653
Bank charges		5,415	4,322	9,737
Insurance	8,070			8,070
Miscellaneous	15,108			15,108
Total expenditures	39,831	12,174,390	2,277,579	14,491,800
DEFICIT OF REVENUES OVER EXPENDITURES	(39,831)	(11,536,114)	(1,913,066)	(13,489,011)
NET CHANGE IN FUND BALANCES	(39,831)	(11,536,114)	(1,913,066)	(13,489,011)
FUND BALANCES — Beginning of year	—	18,429,892	6,878,599	25,308,491
FUND BALANCES — End of year	$ (39,831)	$ 6,893,778	$ 4,965,533	$ 11,819,480

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, 2006

NET CHANGE IN GOVERNMENTAL FUND BALANCES	$ (13,489,011)
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 over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $12,168,975 exceeded depreciation of $157,222 in the current period.	12,011,753
In the statement of activities, interest and charges are accrued on outstanding bonds, whereas, in governmental funds, they are reported when due	394,552
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (1,082,706)

See notes to financial statements.

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, 2006

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE				
Property taxes	$ 114	$ 130	$ —	$ (130)
EXPENDITURES				
Professional fees	16,650	16,337	16,653	(316)
Insurance	4,500	4,485	8,070	(3,585)
Miscellaneous	53,350	16,920	15,108	1,812
Total expenditures	74,500	37,742	39,831	(2,089)
Deficit of revenues over expenditures	(74,386)	(37,612)	(39,831)	(2,219)
OTHER FINANCING SOURCES AND USES				
Developer advances	80,000	43,000		(43,000)
Transfers in				
Total other financing sources and uses	80,000	43,000	—	(43,000)
Net change in fund balances	$ 5,614	$ 5,388	$ (39,831)	$ (45,219)

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, 2006

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE				
Interest	$ —	$ 397,821	$ 638,276	$ 240,455
EXPENDITURES				
Capital outlay	10,689,047	12,389,295	12,168,975	220,320
Bank charges		5,620	5,415	205
Total expenditures	10,689,047	12,394,915	12,174,390	220,525
Deficit of revenues over expenditures	(10,689,047)	(11,997,094)	(11,536,114)	460,980
OTHER FINANCING SOURCES —				
Transfers in (out)	(9,030,000)	19,314		(19,314)
Net change in fund balances	$ (19,719,047)	$ (11,977,780)	$ (11,536,114)	$ 441,666

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, 2006

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE				
Interest		$ 87,680	$ 301,142	$ 213,462
Charges for services	$ 1,042,000	199,284	62,920	(136,364)
Property taxes	306	326	451	125
Total revenue	1,042,306	287,290	364,513	77,223
EXPENDITURES				
Bond interest	2,273,257	2,273,257	2,273,257	
Bank charges	2,004	3,066	4,322	(1,256)
Total expenditures	2,275,261	2,276,323	2,277,579	(1,256)
Deficit of revenues over expenditures	(1,232,955)	(1,989,033)	(1,913,066)	75,967
OTHER FINANCING SOURCES				
Transfers in		200,872		(200,872)
Net change in fund balances	$ (1,232,955)	$ (1,788,161)	$ (1,913,066)	$ (124,905)

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — Woodmen Heights Metropolitan District No. 1 of El Paso County, Colorado (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was formed on December 2, 2004, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado. The District was organized to construct public improvements including road and bridge improvements, landscaping, sanitary and storm sewer, water systems, park and recreation, channel and other drainage improvements needed for the area within Woodmen Heights Metropolitan District Nos. 2 and 3.

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

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations, and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

The District is not financially accountable for any other organization (including Districts 2 and 3) nor is the District a component unit of any other primary governmental entity.

Government-wide and Fund Financial Statements — The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the 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 Accounting — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

The District has elected to follow Governmental Accounting Standards Board pronouncements in government-wide financial statements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and developments fees. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

<u>General Fund</u> — 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.

<u>Capital Projects Fund</u> — The capital projects fund accounts for the construction costs of public improvements undertaken and financed by the District.

<u>Debt Service Fund</u> — 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. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from twenty to forty years.

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

Fair Value of Financial Instruments — The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and advances payable. The District estimates that the fair value of all financial instruments at December 31, 2006 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.

Fund Equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are legally segregated or are not subject to future appropriations. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management.

The District considers all unreserved fund balances to be "reserves" for future operations or capital replacement as defined within Article X, Section 20 of the Constitution of the State of Colorado.

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. CASH AND INVESTMENTS

Cash and investments as of December 31, 2006 are classified in the accompanying financial statements as follows:

Cash deposits	$ 8,257,607
Investments	4,676,439
Cash and investments	$ 12,934,046

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

The State Commissioners for banks 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, 2006, the carrying amount of the District's cash was $8,257,607. Bank balances of $25,167 were covered by federal depository insurance and $8,232,446 is required by Colorado Statutes to be collateralized with securities held by the pledging institution's trust department in the District's name.

Investments — The District has not adopted a formal investment policy, however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

- * Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- * Guaranteed investment contracts
- * Local government investment pools

As of December 31, 2006, the District investments reported on the financial statements can be summarized as follows:

	Investment Maturities (in years)		
Investment	**Less than 1**	**More than 5**	**Total**
International Agency Security	$ 1,694,439	$ 2,982,000	$ 4,676,439

3. CAPITAL ASSETS

Capital assets largely consist of completed infrastructure and construction in process of road and bridge improvements, water and wastewater systems, drainage and landscaping. Capital asset activity for the year ended December 31, 2006 is as follows:

	Balance at January 1, 2006	**Increase**	**Decrease**	**Balance at December 31, 2006**
Water and sewer systems		$ 6,245,794		$ 6,245,794
Roads and drainage		3,165,994		3,165,994
Construction in process	$ 3,730,186	12,168,975	$ (9,411,788)	6,487,373
	3,730,186	21,580,763	(9,411,788)	15,899,161
Accumulated depreciation		(157,222)		(157,222)
Net capital assets	$ 3,730,186	$ 21,423,541	$ (9,411,788)	$ 15,741,939

Depreciation expense for the year ending December 31, 2006 was $157,222.

4. REVENUE BONDS

A summary of bonds payable is as follows:

	Balance at January 1, 2006	Increase	Decrease	Balance at December 31, 2006	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:

Year Ending December 31,	Sinking Fund	Interest	Total
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		2,077,088	2,077,088
2012 — 2016	$ 885,000	10,328,735	11,213,735
2017 — 2021	4,575,000	9,596,700	14,171,700
2022 — 2026	10,300,000	7,280,350	17,580,350
2027 — 2030	14,060,000	2,568,300	16,628,300
Total	$ 29,820,000	$ 40,159,525	$ 69,979,525

5. 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. (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).

6. 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 issued a non-recourse promissory note to the District for $3,871,896, bearing interest at 7%, and due as follows:

Year Ending December 31,	**Principal**	**Interest**	**Total**
2007	$ 43,924	$ 268,098	$ 312,022
2008	46,996	265,026	312,022
2009	50,283	261,739	312,022
2010	53,800	258,222	312,022
2011	57,563	254,459	312,022
2012 — 2016	354,148	1,205,962	1,560,110
2017 — 2021	496,584	1,063,526	1,560,110
2022 — 2026	696,306	863,804	1,560,110
2027 — 2031	976,355	583,755	1,560,110
2032 — 2035	1,057,017	191,071	1,248,088
Total	$ 3,832,976	$ 5,215,662	$ 9,048,638

7. 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.

8. 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.

9. NET ASSETS

The District has net assets consisting of three components – invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2006, the District had no investment in capital assets, net of related debt.

Restricted assets include net assets that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has $4,940,365 of restricted net assets as of December 31, 2006.

As of December 31, 2006, the District had unrestricted net assets (deficit) of $($7,375,357).

10. RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2006. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members.

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

11. PURCHASE COMMITMENTS

During 2006, the District entered into several agreements with contractors for construction to be completed during 2007. The District makes payments on the contracts when progress billings are received. At December 31, 2006, the District had not yet been billed for $1,690,003 associated with these contracts and related change orders.

12. TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments, except Enterprise.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District elected to be exempt from the TABOR provisions.