

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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BASIC FINANCIAL STATEMENTS

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WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 1,948,968
Cash and investments - restricted	1,343,814
Accounts receivable - County Treasurer	22,004
Property taxes receivable	2,704,722
Note receivable	599,988
Capital assets, not being depreciated:	
Construction in progress	2,272,370
Capital assets, net	7,903,796
Total assets	16,795,662
<u>LIABILITIES</u>	
Accounts payable	25,574
Accrued interest payable	890,125
General obligation limited tax bonds:	
Due within one year	115,000
Due in more than one year	37,794,001
Other noncurrent liabilities:	
Accounts payable	338,558
Developer advances	7,874,355
Total liabilities	47,037,613
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property tax revenues	2,704,722
Deferred revenues	599,988
Total deferred inflows of resources	3,304,710
<u>NET POSITION</u>	
Net investments in capital assets	(4,970,707)
Restricted for:	
Debt service	472,008
Emergency reserve	20,608
Unrestricted	(29,068,570)
Total net position	\$ (33,546,661)

The accompanying notes and independent auditor's report
should be read with this financial statement.

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
				<u>Governmental Activities</u>	
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT					
General government	\$ 1,098,865	\$ 983,166	\$ -	\$ -	\$ (115,699)
Recoveries	-	-	1,707	-	1,707
PILOT adjustment (Note 4)	45,368	-	-	-	(45,368)
Interest and related costs on long-term debt	3,055,758	-	-	-	(3,055,758)
Total primary government	\$ 4,199,991	\$ 983,166	\$ 1,707	\$ -	(3,215,118)
GENERAL REVENUES					
Property taxes					2,016,409
Specific ownership taxes					244,045
Interest earned on cash and investments					108,715
Total general revenues					2,369,169
Changes in net position					(845,949)
Net position, beginning of year					(32,700,712)
Net position, end of year					\$ (33,546,661)

The accompanying notes and independent auditor's report should be read with this financial statement.

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 1,054,521	\$ 892,649	\$ -	\$ 1,947,170
Cash and investments - restricted	-	-	1,345,612	1,345,612
Accounts receivable - County Treasurer	-	5,483	16,521	22,004
Property taxes receivable	-	676,166	2,028,556	2,704,722
Total assets	<u>\$ 1,054,521</u>	<u>\$ 1,574,298</u>	<u>\$ 3,390,689</u>	<u>6,019,508</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 25,574	\$ -	\$ -	25,574
Total liabilities	<u>25,574</u>	<u>-</u>	<u>-</u>	<u>25,574</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred property tax revenues	-	676,166	2,028,556	2,704,722
Total deferred inflows of resources	<u>-</u>	<u>676,166</u>	<u>2,028,556</u>	<u>2,704,722</u>
<u>FUND BALANCE</u>				
Restricted for:				
Debt service	-	-	1,362,133	1,362,133
Emergency reserve	20,608	-	-	20,608
Assigned for:				
General fund	-	898,132	-	898,132
Unassigned:				
General government	1,008,339	-	-	1,008,339
Total fund balances	<u>1,028,947</u>	<u>898,132</u>	<u>1,362,133</u>	<u>3,289,212</u>
Total liabilities and fund balances	<u>\$ 1,054,521</u>	<u>\$ 1,574,298</u>	<u>\$ 3,390,689</u>	
Amounts reported in governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:				
Capital assets, net				7,903,796
Construction in progress				2,272,370
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:				
Noncurrent accounts payable				(338,558)
Accrued interest payable				(890,125)
Developer advances				(7,874,355)
Bonds payable				(37,909,001)
Net position of governmental activities				<u>\$ (33,546,661)</u>

The accompanying notes and independent auditor's report should be read with this financial statement.

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Charges for services	\$ -	\$ 330,066	\$ 653,100	\$ 983,166
Property taxes	-	502,471	1,513,938	2,016,409
Specific ownership taxes	-	60,814	183,231	244,045
Recoveries	1,707	-	-	1,707
Net investment income	-	-	108,715	108,715
Total revenues	1,707	893,351	2,458,984	3,354,042
EXPENDITURES				
Current:				
Audit	21,405	-	-	21,405
Bank charges	6,000	-	-	6,000
County Treasurer's fees	7,561	-	22,685	30,246
Dues	1,535	-	-	1,535
Insurance	2,389	-	-	2,389
Landscaping and maintenance	307,470	-	-	307,470
Legal	33,801	-	-	33,801
Management fees	108,000	-	-	108,000
Other	9,870	-	-	9,870
Postage	283	-	-	283
Repayment of developer advances	188,596	-	-	188,596
Debt service:				
Bond principal	-	-	4,266,000	4,266,000
Interest expense	-	-	2,901,714	2,901,714
Total expenditures	686,910	-	7,190,399	7,877,309
Excess of revenues over (under) expenditures	(685,203)	893,351	(4,731,415)	(4,523,267)
OTHER FINANCING SOURCES (USES)				
Developer advance proceeds	-	-	1,579	1,579
Total other financing sources (uses)	-	-	1,579	1,579
Net change in fund balances	(685,203)	893,351	(4,729,836)	(4,521,688)
Fund balances, beginning of year	1,714,150	4,781	6,091,969	7,810,900
Fund balances, end of year	\$1,028,947	\$ 898,132	\$ 1,362,133	\$ 3,289,212

The accompanying notes and independent auditor's report should be read with this financial statement.

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**WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net change in fund balances - total governmental funds \$ (4,521,688)

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

Governmental funds report capital outlays as expenditures. In the statements of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocations of the cost of any depreciable assets over the estimated useful lives of the assets. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

<u>Depreciation expense</u>	(578,446)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences is the treatment of long-term debt and related items as follows:

<u>Principal payments on general obligation limited tax bonds</u>	4,266,000
<u>Repayment of developer advances</u>	188,596
<u>Advances of developer advances</u>	(1,579)

Some revenues reported in the statement of activities do not provide the use of current financial resources and, therefore, are not reported as revenues in governmental funds:

<u>Change in accrued interest receivable and balances due under PILOT agreement (Note 4)</u>	(45,368)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

<u>Accrued interest payable - change in liability</u>	(153,464)
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<u>Changes in net position of governmental activities</u>	<u>\$ (845,949)</u>
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The accompanying notes and independent auditor's report should be read with this financial statement.

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019

	Budget Original and Final	Actual Amounts	Variance with Final Budget Positive (Negative)
<u>REVENUES</u>			
Recoveries	\$ -	\$ 1,707	\$ 1,707
Net investment income	-	-	-
Total revenues	-	1,707	1,707
<u>EXPENDITURES</u>			
Audit	16,000	21,405	(5,405)
Bank charges	200	6,000	(5,800)
Board of directors fees	3,000	-	3,000
Capital outlay	100,000	-	100,000
County Treasurer's fees	7,559	7,561	(2)
Dues	2,000	1,535	465
Insurance	20,000	2,389	17,611
Landscaping and maintenance	260,000	307,470	(47,470)
Legal	60,000	33,801	26,199
Management fees	108,000	108,000	-
Other	17,000	9,870	7,130
Postage	1,000	283	717
Repayment of developer advances	423,500	188,596	234,904
Contingency	185,540	-	185,540
Total expenditures	1,203,799	686,910	516,889
Net change in fund balance	\$ (1,203,799)	(685,203)	\$ (515,182)
Fund balance, beginning of year		1,714,150	
Fund balance, end of year		\$ 1,028,947	

The accompanying notes and independent auditor's report
should be read with this financial statement.

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019

	Budget Original and Final	Actual Amounts	Variance with Final Budget Positive (Negative)
<u>REVENUES</u>			
Charges for services	\$ 423,500	\$ 330,066	\$ (93,434)
Investment income	400	-	(400)
Property taxes	529,603	502,471	(27,132)
Specific ownership taxes	-	60,814	60,814
Total revenues	953,503	893,351	(60,152)
Net change in fund balance	\$ 953,503	893,351	\$ (60,152)
Fund balance, beginning of year		4,781	
Fund balance, end of year		\$ 898,132	

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See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

1. DEFINITION OF REPORTING ENTITY

Woodmen Heights Metropolitan Districts Nos. 1, 2 & 3 (individually, "District #1", "District #2", and "District #3" and, collectively, the "Districts"), quasi-municipal corporations and political subdivisions of the State of Colorado, were formed on December 2, 2004, and are governed pursuant to provisions of the Colorado Special District Act. The Districts' service area is located in Colorado Springs, El Paso County, Colorado ("County"). The Districts were 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 the Districts.

The Districts were formed to serve the needs of the Woodmen Heights development for the purpose of financing, construction and operation of improvements and infrastructure serving the three districts. District #1 is responsible for managing the construction, operation and maintenance of all improvements not transferred to the City of Colorado Springs. District #2 and District #3 are responsible for providing the funding and tax base needed to support the financing plan for capital improvements and to fund ongoing operations. District #2 and District #3 are not component units of District #1.

The Districts follow 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.

District #2 and District #3 collect property taxes that are then remitted to District #1. The significance of District #2's and District #3's relationships with District #1 are such that exclusion from the reporting entity would be misleading.

Based on the application of these criteria, the financial statements of District #2 and District #3 are blended into District #1's financial statements. Separate financial statements for District #1, District #2 and District #3 can be obtained from the Districts (Kevin Walker, District Manager at 614 N. Tejon St., Colorado Springs, Colorado 80903).

The Districts have no employees and all operational and administrative functions are contracted.

See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by property taxes and specific ownership taxes.

The statement of net position reports all financial and capital resources of the Districts. The difference between the assets plus deferred outflows of resources and liabilities plus deferred inflows of resources of the Districts is reported as net position.

The statement of activities demonstrates the degree to which the direct and indirect 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.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement position

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.

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 collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Districts consider 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 specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the Districts. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement position (continued)

The Districts report the following major governmental funds:

General fund - The general fund is used to account for all financial resources of the Districts except those required to be accounted for in another fund.

Special revenue fund - A special revenue fund is used to account for the general fund activity of District #2 and District #3 because these Districts are being presented as blended component units of District #1.

Debt service fund - The debt service fund accounts for the servicing of general long-term debt and revenues generated and received by the Districts that are required to be used in payment of long-term debt.

When both restricted and unrestricted resources are available for use, it is the Districts' policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with state budget law, the Districts' boards of directors hold public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. The Districts' boards of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District incurred expenditures in excess of appropriations for the year ended December 31, 2019 in the debt service fund, which may be a violation of the local government budget law.

Pooled cash and investments

The Districts follow the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average balance in the total cash and investments.

See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes

Property taxes are levied by the Districts' boards of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected to the Districts monthly.

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

Capital assets

Capital assets, which include property, equipment and infrastructure assets (e.g. roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Districts as assets with an initial, individual cost of more than \$500 and a useful life greater than one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of the net investment in capital assets component of the Districts' net position.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of the assets, which range from 20 to 40 years.

Deferred inflows of resources

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Accordingly, the item deferred property tax revenue is deferred and recognized as an inflow of resources in the period that the amounts become available.

See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recoveries

Recoveries represent reimbursements from the City and Colorado Springs Utilities for expenditures previously incurred by the Districts on their behalf.

Equity

Net position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the Districts' practice to use restricted resources first, then unrestricted resources as they are needed.

Fund balance

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or is legally or contractually required to be maintained intact.

Restricted fund balance - The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

Committed fund balance - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the board of directors. The constraint may be removed or changed only through formal action of the board of directors.

See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (continued)

Fund balances (continued)

Assigned fund balance - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance - The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the Districts' policy to use the most restrictive classification first.

Accounting pronouncements adopted

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* ("GASB 89") is effective for fiscal years beginning after December 15, 2019. GASB 89 requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The District early adopted GASB 89 effective January 1, 2019.

3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2019 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 1,948,968
Cash and investments - restricted	<u>1,343,814</u>
Total cash and investments	<u><u>\$ 3,292,782</u></u>

See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

3. CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of December 31, 2019 consist of the following:

Deposits with financial institutions	\$ 2,106,918
Investments	<u>1,185,864</u>
	<u>\$ 3,292,782</u>

Deposits with financial institutions

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

As of December 31, 2019, the Districts' cash deposits had a bank balance of \$2,133,680 and a book balance of \$2,106,918.

Investments

The Districts have not adopted a formal investment policy; however, the Districts follow state statutes regarding investments.

The Districts generally limit their concentration of investments to those with an asterisk below which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the Districts are 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 otherwise formally approved by the boards of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

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 United States government agency securities
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- * Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2019, the Districts had the following in investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Wells Fargo governmental money markets	Weighted average under 60 days	<u>\$ 1,185,864</u>

The Wells Fargo Government Money Markets is a money market fund that is managed by Wells Fargo Funds Management, LLC and each share is equal in value to \$1. The fund is rated AAAM and invests in high quality short-term US government securities. The average maturity of the underlying securities is 90 days or less.

See independent auditor's report

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

4. NOTE RECEIVABLE

During 2005, the Districts entered into an agreement for Payment in Lieu of Taxes ("PILOT Agreement") with a Colorado not-for-profit organization ("Organization") located within the boundaries of District #3. Because the Districts will recover the costs of infrastructure primarily through taxes assessed on property located within District #2 and District #3, and the Organization is exempt from payment of property taxes, the Organization agreed to pay the Districts their share of the Districts' initial infrastructure costs over a 30-year period. The Organization's share of costs was based on estimated infrastructure costs of \$35,989,099 multiplied by the percentage of total property owned by the Organization within the Districts. The Organization issued a non-recourse promissory note ("Promissory Note"), which was based on the property owned by the Organization at the date of the PILOT Agreement plus additional acres the Organization intended to acquire at an assumed purchase date. The PILOT Agreement and the Promissory Note both contained provisions for modification of the Promissory Note if the Organization did not acquire the additional acres at the assumed date. The Organization did acquire the additional acres, but not at the assumed date; as a result, during the year ended December 31, 2008 the Promissory Note was revised.

On March 15, 2012 the PILOT agreement was modified due to the issuance of the Series 2012A and 2012B Bonds. All of the PILOT Agreement payments due and payable in cash on or after April 1, 2013, were pledged to the payments of the Series 2012A and 2012B Bonds and will be used by the Districts for no other purpose except for PILOT Agreement payments permitted to be used for infrastructure improvements.

On August 17, 2015, the PILOT Agreement was modified due to the sale of 19.85 acres of land securing the Organization's obligation. This amendment reduced the principal amount of the PILOT agreement by \$592,909, amended the 2005 deed of trust and resulted in new payment terms.

On July 21, 2016, the PILOT Agreement was modified due to the sale of 27.03 acres of land securing the Organization's obligation. This amendment reduced the principal amount of the PILOT agreement by \$790,752, amended the 2005 deed of trust and resulted in new payment terms.

On July 19, 2017, the PILOT Agreement was modified due to the sale of 28.61 acres of land securing the Organization's obligation. This amendment reduced the principal amount of the PILOT agreement by \$814,581, amended the 2005 deed of trust and resulted in new payment terms.

On January 1, 2020, the PILOT Agreement was modified to reflect the sale of approximately 15.09 acres of land securing the Organization's obligation. This amendment reduced the principal amount of the PILOT to \$611,54 as of August 17, 2018. This modification also stipulated payment terms and credits against future payments related to infrastructure improvements funded by the Organization and therefore increasing the property value and tax base.

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WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

4. NOTE RECEIVABLE (CONTINUED)

The non-cash reduction in the balance of interest receivable related to the PILOT note receivable of \$45,368 is included in PILOT adjustment on the statement of activities.

As of December 31, 2019, annual receipts under the note receivable agreement are expected to be as follows for the years ending December 31,:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Less Infrastructure Credits</u>	<u>Cash Anticipated*</u>
2020	\$ 23,658	\$ 38,235	\$ 61,893	\$ 61,893	\$ -
2021	25,137	36,756	61,893	61,893	-
2022	26,709	35,184	61,893	61,893	-
2023	28,379	33,514	61,893	61,893	-
2024	30,153	31,740	61,893	61,893	-
2025-2029	181,515	127,950	309,465	147,811	161,654
2030-2034	245,812	63,653	309,465	-	309,465
2036	38,625	3,137	41,762	-	53,314
	<u>\$ 599,988</u>	<u>\$ 370,169</u>	<u>\$ 970,157</u>	<u>\$ 457,276</u>	<u>\$ 524,433</u>

* Up to \$2,374,044 of the PILOT Agreement note receivable may be repaid with infrastructure, the balance must be paid with cash and has been pledged to repay the Series 2012A, 2012B, and 2014C Bonds (Note 6). Per the 6th modification to the PILOT agreement, the remaining amount eligible to be paid with infrastructure is \$457,275.

WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

5. 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, 2019 is as follows:

	<u>Balance 1/1/2019</u>	<u>Additions/ Reclass- ifications</u>	<u>Dispositions Reclass- ifications</u>	<u>Balance 12/31/2019</u>
Governmental activities				
Capital assets, not being depreciated:				
Construction in progress	<u>2,272,370</u>	\$ -	\$ -	<u>\$ 2,272,370</u>
Total capital assets, not being depreciated	<u>2,272,370</u>	-	-	<u>2,272,370</u>
Capital assets, being depreciated:				
Water and sewer systems	2,611,105	-	-	2,611,105
Roads and drainage	<u>10,263,398</u>	-	-	<u>10,263,398</u>
Total capital assets, being depreciated	12,874,503	-	-	12,874,503
Less: accumulated depreciation	<u>4,392,261</u>	<u>578,446</u>	-	<u>4,970,707</u>
Total capital assets, being depreciated, net	<u>8,482,242</u>	<u>(578,446)</u>	-	<u>7,903,796</u>
Governmental activities capital assets, net	<u>\$ 10,754,612</u>	<u>\$ (578,446)</u>	<u>\$ -</u>	<u>\$ 10,176,166</u>

Depreciation expense for the year ended December 31, 2019 totaled \$578,446.

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WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

6. LONG-TERM OBLIGATIONS

Series 2012A Bonds and Series 2012B Series Bonds

During 2012, the Districts issued new bonds to replace the 2005 Series Bonds with the existing bondholder. The bonds were reissued in two separate issuances: Series 2012A and Series 2012B Bonds for a combined amount of \$30,707,680. The interest rate on the 2012A Bonds is 6.00% per annum and the rate on the Series 2012B Bonds is 7.30% per annum. The Series 2012A Bonds mature on December 1, 2041 and the Series 2012B Bonds mature on December 15, 2041. The Districts were also authorized in this reissue to be able to issue Series C Bonds which the Districts could use to settle the developer advances and other current liabilities. The Series C Bonds were authorized during 2014 as outlined below.

The interest on the Series 2012A and 2012B Bonds will be paid from pledged revenues including property taxes, specific ownership taxes, PILOT Agreement proceeds and facility fees received from District #2 and District #3. The Series 2012B Bonds are subordinate to the 2012A Bonds. The Series 2012A Bonds debt service payments began on June 15, 2012. The Series 2012B Bonds debt service payments were delayed until December 15, 2017, at which time the accrued interest and principal on the Series 2012B Bonds had accreted to a total of \$36,000,000. Payments of interest and principal for the Series 2012B Bonds began in 2018.

Series 2014C Bonds*

During 2015, the Districts issued Series C bonds (which were authorized in 2014) of \$6,100,000 for the purpose of reimbursing the Districts' developers. These bonds bear interest at 3.00% per annum. Interest is payable annually beginning December 15, 2015. These bonds mature December 15, 2041.

The interest on Series 2014C Bonds will be paid from the second subordinate pledged revenues including the Funding Agreement and PILOT Agreement proceeds. The Series 2014C bonds are subordinate to both the Series 2012A and Series 2012B Bonds, and payment on the Series 2014C Bonds will not be allowed until Series A and Series B bonds have been fully repaid. Accordingly, these amounts are excluded from the maturity schedule below.

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WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

6. LONG-TERM OBLIGATIONS (CONTINUED)

	Balance 1/1/2019	Additions	Repayments/ Accretion	Balance 12/31/2019	Due within one year
Series 2012A Bonds	\$ 6,175,000	\$ -	\$ (100,000)	\$ 6,075,000	\$ 115,000
Series 2012B Bonds	24,007,680	-	(4,166,000)	19,841,680	-
Series 2012B Accretion	11,992,321	-	-	11,992,321	-
Series 2014C Bonds*	5,616,216	-	-	5,616,216	-
	<u>\$ 47,791,217</u>	<u>\$ -</u>	<u>\$ (4,266,000)</u>	<u>\$ 43,525,217</u>	<u>\$ 115,000</u>

*These amounts are included in developer advances in the statement of net position.

Annual requirements to amortize 2012A Series Bonds and 2012B Series Bonds are as follows:

Year Ending December 31,	Principal	Interest	Total
2020	\$ 115,000	\$ 2,688,382	\$ 2,803,382
2021	120,000	2,681,482	2,801,482
2022	135,000	2,674,282	2,809,282
2023	145,000	2,666,182	2,811,182
2024	160,000	2,657,482	2,817,482
2025-2029	4,074,892	12,597,102	16,671,994
2030-2034	8,952,047	9,403,249	18,355,296
2035-2039	11,214,741	3,513,007	14,727,748
2040-2041	1,000,000	90,900	1,090,900
	<u>\$ 25,916,680</u>	<u>\$ 38,972,068</u>	<u>\$ 64,888,748</u>

Voters authorized the Districts to incur a maximum of \$484,000,000 of debt. Subsequent to the issuance of the Series 2012A, 2012B and 2014C bonds, the District has \$417,372,320 in authorized but unissued debt. The Districts' total debt is limited by their service plans with the City to a maximum of \$60,000,000. As of December 31, 2018, the Districts have an additional \$17,900,000 of approved unissued debt per the service plan. The City has agreed that it will not count the 2012 bonds against the \$60,000,000 service plan limit.

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WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

7. NET POSITION

The Districts have a net position consisting of three components: net investments in capital assets, restricted and unrestricted.

The net investments in capital assets component of net position consist of capital assets that are owned by the Districts, 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 improvement of those assets.

As of December 31, 2019, the Districts had net investments in capital assets as follows:

	Government Activities
Net investments in capital assets:	
Capital assets, net	\$ 7,903,796
Outstanding noncurrent obligations	(12,874,503)
Net investments in capital assets	\$ (4,970,707)

Restricted positions include net positions that are subject to restrictions for use either by external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Districts had a restricted net position of as of December 31, 2019 as follows:

Restricted net position:	
Emergencies (Note 12)	\$ 20,608
Debt service (Note 6)	472,008
	\$ 492,616

The Districts' unrestricted net position as of December 31, 2019 totaled a deficit of \$29,068,570. This deficit amount was a result of the Districts' responsibility for the repayment of general obligation bonds related to assets contributed to other governments.

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WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

8. INTERGOVERNMENTAL AGREEMENT

In 2005, District #1 entered into an Intergovernmental Agreement and a related Joint Funding Agreement with District #2 and District #3. On March 15, 2012, the Joint Funding Agreement was amended and restated due to the issuance of the Series 2012A Bonds. District #2 and District #3 function as financing Districts. The intent of the agreements is for the Districts to coordinate activities with respect to the financing, construction, operation and maintenance of the public improvements necessary to serve development within District #2 and District #3, which is generally anticipated to consist of residential development in District #2 and commercial development in District #3.

Under the terms of the agreements, District #1 will own and be responsible for managing the financing, construction, operation and maintenance of facilities and improvements within District #2 and District #3. This includes the issuing of revenue bonds payable from tax and other revenues generated by District #2 and District #3 and paid to District #1. It is the obligation of District #2 and District #3 to fully fund the construction, operation and maintenance of these facilities and improvements with such revenues to include facility fees, property taxes and PILOT Agreement revenues.

9. JOINT USE AGREEMENT

In 2005, the Districts 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 Districts. 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.

10. RELATED PARTIES

The Developers of the property which constitutes the Districts are Case International Company, KF 103-CV, LLC and Morley Companies Family Development, LLLP. Certain members of the boards of directors are officers of, employees of, or associated with the developers and may have conflicts of interest in dealing with the Districts.

Developer advances

To continue the development within the Districts, the Districts' developers, under the direction of the boards of directors of the Districts, have made improvements within the Districts. These improvements are reimbursable by the Districts. The Districts have assigned multiple tiers to developer advances to prioritize which items should be repaid first based on relative urgency to the District. The boards of directors intend to authorize the Districts to pay these balances as soon as funds are available. Accordingly, the advances are classified as non-current. The developer advances are unsecured and do not bear interest.

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WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

11. RISK MANAGEMENT

The Districts are exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to contractors; or acts of God.

District #1 is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2019. 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. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The Districts pay annual premiums to the Pool for liability, property and public officials liability 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.

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 within the State of Colorado.

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. The Districts' voters approved a ballot issue allowing the Districts to retain all revenues.

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 Districts' management believes the Districts are in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

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SUPPLEMENTARY INFORMATION

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WOODMEN HEIGHTS METROPOLITAN DISTRICT, NOS. 1, 2 & 3
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019

	Budget Original and Final	Actual Amounts	Variance with Final Budget Positive (Negative)
<u>REVENUES</u>			
Charges for services	\$ 499,972	\$ 653,100	\$ 153,128
Property taxes	1,511,808	1,513,938	2,130
Specific ownership taxes	105,827	183,231	77,404
Net investment income	50,000	108,715	58,715
Total revenues	2,167,607	2,458,984	291,377
<u>EXPENDITURES</u>			
County Treasurer's fees	22,677	22,685	(8)
Bank charges	10,000	-	10,000
Bond principal	100,000	4,266,000	(4,166,000)
Contingency	2,000	-	2,000
Interest expense	2,998,500	2,901,714	96,786
Total expenditures	3,133,177	7,190,399	(4,057,222)
Excess of revenues over (under) expenditures	(965,570)	(4,731,415)	4,348,599
<u>OTHER FINANCING SOURCES (USES)</u>			
Developer advance proceeds	-	1,579	(1,579)
Total other financing sources	-	1,579	(1,579)
Net change in fund balance	\$ (965,570)	(4,729,836)	\$ (3,767,424)
Fund balance, beginning of year		6,091,969	
Fund balance, end of year		\$ 1,362,133	

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