stockman kast ryan + co
LLP

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

Management's Discussion and Analysis and Financial Statements

For the Year Ended December 31, 2011

And

Independent Auditors' Report

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

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011:	
Government-Wide Statement of Net Assets (Deficit)	6
Statement of Activities	7
Balance Sheet – Governmental Funds	8
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	9
Reconciliation Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
General Fund	11
Special Revenue Fund	12
Notes to Financial Statements	13
SUPPLEMENTAL SCHEDULES FOR THE YEAR ENDED DECEMBER 31, 2011:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
Capital Projects Fund	23
Debt Service Fund	24

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Woodmen Heights Metropolitan District, Nos. 1, 2 & 3

We have audited the accompanying financial statements of the governmental activities and each major fund of the Woodmen Heights Metropolitan District, Nos. 1, 2 & 3 (the District) as of December 31, 2011 and for the year then ended which collectively comprised the basic financial statements of the District, as listed in the table of contents. 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.

Except as discussed in the following paragraph, 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.

Because of the inadequacy of certain accounting records, we were unable to form an opinion regarding the amounts at which certain developer advances, made for District improvements, (stated at $4,290,169 as of December 31, 2011) and the related capital assets are recorded in the accompanying government-wide statement of net assets as of December 31, 2011 or the amount of capital outlays made by developers with developer advances for the year then ended.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the existence and valuation of the District's reimbursement liability to certain developers the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Woodmen Heights Metropolitan District, Nos. 1, 2, & 3 as of December 31, 2011, and the respective changes in financial position and budgetary comparisons of the general fund and special revenue fund 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. The District's expenses exceeded revenues by $2,003,630 during 2011. Since its inception, expenses have exceeded revenues such that as of December 31, 2011 the District had an unrestricted accumulated deficit of $28,238,552. The District is not in a position to meet all of its current obligations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Certified Public Accountants and Business Advisors | 102 N. Cascade Avenue, Suite 400, Colorado Springs, CO 80903
www.skrco.com
telephone: (719) 630-1186
facsimile: (719) 630-1187

As discussed in Note 11 to the financial statements, the District is a counterclaim defendant in a lawsuit related to an easement and the relocation of roads that occurred during construction of improvements within the District. The ultimate outcome of the lawsuit cannot presently be determined; however, management is of the opinion that an unfavorable outcome could have a material impact on the District's financial statements. No provision for any liability that may result has been made in the financial statements due to uncertainties related to the lawsuit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The individual non-major fund financial statements and budgetary comparisons are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Stockman Kast Ryan + Co., LLP

September 10, 2012

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

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, 2011. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2011

- In 2011, the District's net deficiency increased by $2.0 million.
- Total revenues decreased to $1.2 million during 2011, a 63% decrease from 2010.
- Total capital expenses decreased to $150,000 in 2011 from $516,000 in 2010.
- Net capital assets were $9.6 million in 2011, a 2% decrease from 2010.
- Debt outstanding for bonds remained at $29,820,000 during 2011.

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 spendable resources) with capital assets and long-term obligations. (See page 6).

- **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 9).

STATEMENT OF NET ASSETS:

	2011	2010	Percent Increase (Decrease)
Cash deposits and investments, and property taxes receivable	$ 1,098,975	$ 2,556,237	(57)%
Capital assets, net	9,579,128	9,789,783	(2)%
Other non-current assets	3,994,231	3,559,695	12 %
Current liabilities	2,941,945	2,196,788	34 %
Non-current liabilities	39,968,941	39,943,849	0 %
Total net assets (deficit)	$ (28,238,552)	$ (26,234,922)	8 %

The 57% decrease in 2011 is due to the decline of building permit fees paid to the District. The increase in current liabilities was from developer improvements to the District that, if possible, will be paid by the District in future years.

REVIEW OF REVENUE:

	2011	2010	Percent Increase (Decrease)
Property tax	$ 599,763	$ 517,246	16 %
Charges for services, including recoveries	331,485	2,451,098	(86)%
Interest	265,373	291,639	(9)%
Total revenue	$ 1,196,621	$ 3,259,983	(63)%

The decrease in fund revenues in 2011 is due primarily to the decline in building permit fees. The District once again did not receive the PILOT payment of $312,022 from Woodmen Valley Church, which was instead unpaid and to be used for District improvements.

REVIEW OF EXPENDITURES:

	2011	2010	Percent Increase (Decrease)
Bond interest	$ 1,903,997	$ 2,077,088	(8)%
Professional fees	248,139	265,255	(6)%
Capital outlay	150,389	515,879	(71)%
Insurance	8,073	5,070	59 %
Bank charges	4,333	7,905	(45)%
Miscellaneous	1,413	785	80 %
Total expenditures	$ 2,316,344	$ 2,871,982	(19)%

The interest payments for the bond fund comprise the majority of the expenses for 2011. Legal expenses continued to be higher in 2011 due to the Sorpresa ROW litigation and the restructuring of the bonds. (See additional financial information).

GENERAL OBLIGATION LIMITED TAX BONDS:

	2011	2010	Percent Increase (Decrease)
TOTAL TAX BONDS: SERIES 2005	$ 29,820,000	$ 29,820,000	0 %

Total tax bonds remain at 29,820,000.

Debt Outstanding:

The District issued Bond Series 2005 for $29,820,000 in bond funds on October 20, 2005.

On December 1, 2011 the District was unable to make its full debt service payment causing the bondholder to restructure the bonds. The Series 2012A Bonds is in the amount of $6,700,000 and the Series 2012B Bonds is for the amount of $24,007,680. There is also a Series 2012C Bonds that will enable the District to pay off some of its debt for Title 32 approved improvements by developers. The Bonds closed on March 15, 2012.

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.

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 expects to receive a significant portion of home sales for the Colorado Springs area as the market recovers.

The District has entered into litigation regarding assets that they had constructed. See discussion and possible losses related to this issue at Note 11.

Additional Financial Information:

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, Nos. 1, 2 & 3, Terry Schooler, District Manager at 455 E. Pikes Peak Avenue, Suite 308, Colorado Springs, Colorado 80903.

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

GOVERNMENT-WIDE STATEMENT OF NET ASSETS (DEFICIT)
DECEMBER 31, 2011

ASSETS	
Cash deposits and investments	$ 485,871
Property taxes receivable	613,104
Note receivable	3,548,348
Accrued interest receivable	445,883
Capital assets, net	9,579,128
TOTAL ASSETS	14,672,334
LIABILITIES	
Accounts payable	8,807
Accrued interest	1,810,505
Deferred property taxes	613,104
Non-current liabilities:	
Accounts payable	509,529
Bonds payable	29,820,000
Deferred revenue	3,492,836
Developer advances	6,656,105
TOTAL LIABILITIES	42,910,886
NET ASSETS (DEFICIT)	
Restricted for debt service	336,852
Restricted for emergency services	7,484
Unrestricted accumulated deficit	(28,582,888)
NET DEFICIT	$ (28,238,552)

See notes to financial statements.

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Change in Net Deficit of Primary Government — Governmental Activities
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT				
General government	$ 618,669	$ 856,710		$ 238,041
Fiscal charges	4,333			(4,333)
Interest on long-term debt	2,577,249			(2,577,249)
Total primary government	$ 3,200,251	$ 856,710	$ —	(2,343,541)
GENERAL REVENUES				
Recoveries				74,538
Interest earned on cash and cash equivalents				11,873
Interest earned on note receivable				253,500
Total general revenue				339,911
CHANGE IN NET DEFICIT				(2,003,630)
NET DEFICIT, Beginning of year				(26,234,922)
NET DEFICIT, End of year				$ (28,238,552)

See notes to financial statements.

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

BALANCE SHEET — GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Govern-mental Funds
ASSETS					
Cash deposits and investments	$ 146,671		$ 2,348	$ 336,852	$ 485,871
Property taxes receivable		$ 613,104			613,104
Total assets	$ 146,671	$ 613,104	$ 2,348	$ 336,852	$ 1,098,975
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 8,807				$ 8,807
Deferred property taxes		$ 613,104			613,104
Total liabilities	$ 8,807	613,104	$ —	$ —	621,911
FUND BALANCES					
Committed for capital projects			2,348		2,348
Restricted for debt service				336,852	336,852
Restricted for emergency service	7,484				7,484
Unrestricted fund balance	130,380				130,380
Total fund balances	137,864	—	2,348	336,852	477,064
Total liabilities and fund balances	$ 146,671	$ 613,104	$ 2,348	$ 336,852	

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	9,579,128
Amounts due on the note receivable not expected to be paid in cash therefore should not be recorded on the fund financial statements	55,512
Liabilities and receivables are not due and payable in the current period and therefore are not reported in the funds:	
Developer advances	(6,656,105)
Bonds payable	(29,820,000)
Accounts payable	(509,529)
Accrued interest payable	(1,810,505)
Accrued interest receivable	445,883
Net assets (deficit) of government activities	$ (28,238,552)

See notes to financial statements.

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE					
Charges for services	$ 4,755	$ 196,680	$ 74,538		$ 275,973
Property taxes		599,763			599,763
Interest			6	$ 11,867	11,873
Total revenue	4,755	796,443	74,544	11,867	887,609
EXPENDITURES					
Bond interest				1,903,997	1,903,997
Professional fees	239,853	8,286			248,139
Capital outlay			150,389		150,389
Insurance	8,073				8,073
Miscellaneous	1,543			4,203	5,746
Total expenditures	249,469	8,286	150,389	1,908,200	2,316,344
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(244,714)	788,157	(75,845)	(1,896,333)	(1,428,735)
OTHER FINANCING SOURCES (USES)					
Developer advances (repayments)	80,604		(361)		80,243
Transfers in (out)	172,793	(788,157)	(437)	615,801	
Total other financing sources (uses)	253,397	(788,157)	(798)	615,801	80,243
NET CHANGE IN FUND BALANCES	8,683	—	(76,643)	(1,280,532)	(1,348,492)
FUND BALANCES, Beginning of year	129,181	—	78,991	1,617,384	1,825,556
FUND BALANCES, End of year	$ 137,864	$ —	$ 2,348	$ 336,852	$ 477,064

See notes to financial statements.

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

RECONCILIATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

NET CHANGE IN GOVERNMENTAL FUND BALANCES	$ (1,348,492)
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 depreciation of $(361,044) exceeded capital outlays of $150,389 in the current period.	(210,655)
Capital assets are not current resources, therefore revenues expected to be settled with capital assets are not reported in the governmental funds.	55,512
Advances from developers for construction and operations are not reported as revenues in the statement of activities; whereas in governmental funds it is reported as revenue.	(80,243)
In the statement of activities, interest and charges are accrued on outstanding bonds and receivables, whereas, in governmental funds, they are reported when due.	(419,752)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (2,003,630)

See notes to financial statements.

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

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE				
Charges for services	$ 201,600	$ 34,429	$ 4,755	$ (29,674)
EXPENDITURES				
Professional fees	170,061	252,538	239,853	12,685
Insurance	6,300	5,320	8,073	(2,753)
Miscellaneous	5,800	4,519	1,543	2,976
Total expenditures	182,161	262,377	249,469	12,908
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	19,439	(227,948)	(244,714)	(16,766)
OTHER FINANCING SOURCES				
Developer advances		80,604	80,604	
Transfers in	144,969	146,318	172,793	26,475
Total other financing sources	144,969	226,922	253,397	26,475
NET CHANGE IN FUND BALANCES	$ 164,408	$ (1,026)	$ 8,683	$ 9,709

See notes to financial statements.

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

SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE				
Charges for services	$ 303,876	$ 196,680	$ 196,680	
Property taxes	588,120	599,470	599,763	$ 293
Total revenue	891,996	796,150	796,443	293
EXPENDITURES				
Professional fees	8,245	8,286	8,286	
EXCESS OF REVENUES OVER EXPENDITURES	883,751	787,864	788,157	293
OTHER FINANCING USES				
Transfers out	(883,751)	(787,864)	(788,157)	(293)
NET CHANGE IN FUND BALANCES	$ —	$ —	$ —	$ —

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity Combined — Woodmen Heights Metropolitan District, Nos. 1, 2 and 3 of Colorado Springs, 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 Colorado Springs, 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 the District.

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.

Based on the application of these criteria, the District includes the following non-major component units in its financial statements.

Woodmen Heights Metropolitan District #2 (District #2) – District #2 collects property taxes that are then remitted to District #1. The significance of the District's relationship with District #2 is such that exclusion from the reporting entity would be misleading.

Woodmen Heights Metropolitan District #3 (District #3) - District #3 collects property taxes that are then remitted to District #1. The significance of the District's relationship with District #3 is such that exclusion from the reporting entity would be misleading.

The financial statements of District Nos. 2 and 3 and are blended into the District financial statements. Separate financial statements for District Nos. 2 and 3 can be obtained from the District, Terry Schooler, District Manager at 455 E. Pikes Peak Avenue, Suite 308, Colorado Springs, Colorado 80903.

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 non-fiduciary 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. The District is still in the construction phase and therefore still requires significant amounts of capital. Since its inception, expenses have exceeded revenues such that at December 31, 2011 the District had an unrestricted accumulated deficit of $(28,582,888). The District has had to draw on the bond reserve fund to finance the bond interest payments. During 2011, the District was unable to make the full debt service payment. The District also has continued to be unable to fund all of its current obligations. These factors and others raise substantial doubt about the District's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the District cannot continue in existence. Subsequent to year-end the District was able to reissue their current outstanding bonds to the current bondholder. The new bonds have terms that may enable the District to meet their future debt service payments. Additionally, as part of the refinancing the District is allowed to issue additional subordinate bonds to pay all of the current obligations of the District. The additional subordinate bonds are not expected to be issued until 2013.

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 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.

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:

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.

Special Revenue Fund — A Special Revenue Fund is used to collect and disburse monies earmarked for specific purposes due to either legal or contractual arrangements. The Special Revenue Fund is used to account for service revenues and property tax revenues. The District has chosen to use this type of fund because the revenue from these service fees are paid to other entities for services rendered and because the service fees are not established to cover the cost of the assets.

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.

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

Fund Balances and Net Assets — In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the District is bound to honor constraints on the specific purposes for which spending within the fund can occur. The following classifications of fund balance describe the relative strength of the spending constraints:

Restricted — Includes the portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions (see TABOR discussion below) or enabling legislation.

Committed — Includes the portion of fund balance that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Directors, the highest level of decision making authority. The constraint, once imposed can only be removed or changed through formal action of the Board.

Assigned — Includes the portion of the fund balance that is constrained by the District's intent for use for a specific purpose but said intent does not meet the definition of either Restricted or Committed. Under the District's adopted guidelines, the Board has delegated the authority for such assignment to the District's chief financial officer.

Unassigned — Includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose with the General Fund.

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

In the net assets financial statements, net assets represent the difference between assets and liabilities. The net assets are further classified as follows:

- Net assets invested in capital assets, net of related debt, consists of the value of capital assets net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition or construction of improvement on those assets excluding unspent bond proceeds.
- Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restriction imposed by creditors, grantors, laws or regulations of other governments.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted assets first, then unrestricted resources as they are needed.

Restricted and Committed Fund Balance — Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 11). $7,484 has been reserved in compliance with this requirement.

Subsequent to year-end, the District reissued their bonds to the current bondholder. The bonds were reissued in two separate issuances: the Series 2012A and Series 2012B bonds. The District was also authorized in this reissue to be able to issue additional Series C bonds which the District could use to settle the developer advances and other current liabilities. It is uncertain when or if the District will issue these additional Series C bonds.

The interest on the 2012 bonds will be paid from pledged revenues such as property taxes, specific ownership taxes and facility fees received from District Nos. 2 and 3. The Series 2012B bonds are subordinate to the 2012A bonds. The Series 2012A debt service payments begin on June 15, 2012. The Series 2012B debt service payments are delayed until December 15, 2017 at which time the accrued interest and principal on the Series 2012B bonds will have accrued to a total of $36,000,000. Payments of interest and principal will begin in 2018.

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.

Fair Value of Financial Instruments — The District's financial instruments include cash deposits and investments, receivables, accounts payable, bonds payable and developers advances payable. The District estimates that the fair values of all financial instruments at December 31, 2011 do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet.

Fees — The District imposes certain facility development fees on property within the District. The storm drainage fees are City imposed fees that are due at plat recording and the District's facility development fee is required to be paid prior to the issuance of a building permit by the City or County. The District records the revenue when the fees are received.

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.

Subsequent Events — The District has evaluated subsequent events for recognition or disclosure through September 10, 2012, the date the financial statements were available for issuance.

2. CASH DEPOSITS AND INVESTMENTS

Cash deposits and investments as of December 31, 2011 are classified in the accompanying financial statements as follows:

STATEMENT OF NET ASSETS	
Cash deposits	$ 246,593
Investments	239,278
Cash deposits and investments	$ 485,871

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, 2011, the bank balance of the District's cash was $480,258. Bank balances of $170,929 were covered by federal depository insurance and $309,329 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, 2011, the District investments reported on the financial statements are summarized as follows:

Investment	Investment Maturities (in years) Less than 1	More than 5	Total
International Agency Security	$ —	$ 239,278	$ 239,278

Moody's ratings rate the International Agency Security investment as Aaa.

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, 2011 is as follows:

	Balance at January 1, 2011	Increase	Decrease	Transfers	Balance at December 31, 2011
Water and sewer systems	$ 1,884,707	$ 61,879			$ 1,946,586
Roads and drainage	5,792,007	88,510			6,733,517
Construction in process	2,828,664				1,975,664
	10,505,378	150,389			10,655,767
Accumulated depreciation	(715,595)	(361,044)			(1,076,639)
Net capital assets	$ 9,789,783	$ (210,655)	$ —	$ —	$ 9,579,128

Depreciation expense charged to government-wide activities for public improvements for the year ending December 31, 2011 was $361,044.

4. BONDS PAYABLE

A summary of bonds payable is as follows:

	Balance at January 1, 2011	Increase	Decrease	Balance at December 31, 2011	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	$ —

Subsequent to year-end, the District reissued their bonds to the current bondholder. The bonds were reissued in two separate issuances: the Series 2012A and Series 2012B bonds for a combined amount of $30,707,680. The interest rate on the 2012A bonds is 6.00% and the rate on the 2012B bonds is 7.30%. The District was also authorized in this reissue to be able to issue additional Series C bonds which the District could use to settle the developer advances and other current liabilities. It is uncertain when or if the District will issue these additional Series C bonds.

The interest on the 2012 bonds will be paid from pledged revenues such as property taxes, specific ownership taxes and facility fees received from District Nos. 2 and 3. The Series 2012B bonds are subordinate to the 2012A bonds. The Series 2012A debt service payments begin on June 15, 2012. The Series 2012B debt service payments are delayed until December 15, 2017 at which time the accrued interest and principal on the Series 2012B bonds will have accrued to a total of $36,000,000. Payments of interest and principal will begin in 2018.

The following is a summary of mandatory sinking fund payments and interest requirements on the Series 2012 Bonds:

Year Ending December 31,	Principal	Interest	Total
2012	$ 65,000	$ 1,588,871	$ 1,653,871
2013	65,000	2,245,780	2,310,780
2014	65,000	2,376,761	2,441,761
2015	70,000	2,517,588	2,587,588
2016	80,000	2,668,680	2,748,680
2017-2021	515,000	14,811,308	15,326,308
2022-2026	1,350,000	14,796,800	16,146,800
2027-2031	6,880,000	13,672,565	20,552,565
2032-2036	13,655,000	10,241,420	23,896,420
2037-2041	7,962,680	4,508,930	12,471,610
Total	$ 30,707,680	$ 69,428,703	$100,136,383

Voters in the District authorized the District to be able to incur a maximum of $484,000,000 of debt. Subsequent to the issuance of the 2012 Bonds, the District has $423,472,320 in authorized but unissued debt. The District's total debt is limited by their Service Plan with Colorado Springs to a maximum of $60,000,000. As of December 31, 2011, the District has an additional $30,180,000 of approved unissued debt per the Service Plan. The City of Colorado Springs has agreed that they will not count the 2012 bonds against the $60,000,000 Service Plan limit.

5. INTERGOVERNMENTAL AGREEMENT

In 2005, the District entered into an Intergovernmental Agreement and a related Joint Funding Agreement with District No. 2 and District No. 3. District No. 2 and District No. 3 function as financing Districts. The intent of the Agreements is for the three Districts, Nos. 1, 2 and 3 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 (the Organization) located within the boundaries of District No. 3. 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 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.

Under the revised terms, the Promissory Note continues to bear interest at 7%, and is due as follows:

Year Ending December 31,	Principal	Interest	Total
2012	$ 115,036	$ 252,497	$ 367,533
2013	63,828	248,194	312,022
2014	68,442	243,580	312,022
2015	73,390	238,633	312,023
2016	78,695	233,327	312,022
2017-2021	487,492	1,072,617	1,560,109
2022-2026	691,080	869,030	1,560,110
2027-2031	979,693	580,417	1,560,110
2032-2035	990,692	177,079	1,167,771
Total	$ 3,548,348	$ 3,915,374	$ 7,463,722

During the year ended December 31, 2011, the Organization did not make any payments, however, the Organization has stated its intention to construct assets in 2012 that will be turned over to the District in lieu of their 2011 and 2012 payments.

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

To continue the development within the District, the District's developers, under the direction of the Board of Directors of the District, have continued to make improvements within the District. These improvements within the District are reimbursable by the District. The District has assigned multiple tiers to their developer advances. Based on the critical nature of each project, it will be paid within the tier structure with the District repaying the tier one improvements first. The Board of Directors intends to authorize the District to pay these payables as soon as funds are available. The advances are classified as non-current, are unsecured and do not bear interest. Management has accrued 7% simple interest on these notes in anticipation of a reimbursement agreement, they believe the District will eventually be liable for some interest component based on the anticipated reimbursement agreement.

9. 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 District Property and Liability Pool (Pool) as of December 31, 2011. 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.

10. CONTINGENCIES

The District is a counterclaim defendant in a lawsuit related to an easement and the relocation of certain roads that occurred during construction of improvements within the District. Property owners in the area believe that they have incurred damages due to improper moving of the road. During 2010, a lower court ruled that the District and developers improperly moved the right-of-way along Sorpresa Lane and Ski Lane. The court also allowed the defendants to assert claims for monetary and injunctive relief. These damages could include full restoration of Sorpresa Lane and Ski Lane to their historical locations. Due to the nature of this litigation, the District may not be fully covered by the Colorado Governmental Immunity Act. If the District is not covered by this Act, the District plans to appeal such a ruling to a higher court. Outside counsel estimated that the potential loss could range from approximately $10,000 to over $1,000,000, and that the loss could be split between two other defendants. Outside counsel for the District has advised that at this stage in the proceedings they cannot offer an opinion as to the probable outcome.

11. 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.

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

SUPPLEMENTAL SCHEDULES

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

CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget Amounts			
	Original	Final	Actual	Variance
REVENUE				
Charges for services		$ 33,605	$ 74,538	$ 40,933
Interest	$ 10	6	6	
Total revenue	10	33,611	74,544	40,933
EXPENDITURES				
Capital outlay	3,969	186,785	150,389	36,396
Professional fees		20,500		20,500
Bank charges	750	28		28
Total expenditures	4,719	207,313	150,389	56,924
DEFICIT OF REVENUES OVER EXPENDITURES	(4,709)	(173,702)	(75,845)	97,857
OTHER FINANCING SOURCES —				
Developer advances		20,000	(361)	(20,361)
Transfers out			(437)	(437)
Total other financing sources	—	20,000	(798)	(20,798)
NET CHANGE IN FUND BALANCES	$ (4,709)	$ (153,702)	$ (76,643)	$ 77,059

See notes to financial statements.

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

DEBT SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUE				
Interest	$ 6,412	$ 11,867	$ 11,867	$ —
EXPENDITURES				
Bond interest	2,077,088	1,915,344	1,903,997	11,347
Bank charges	2,650	20,748	4,203	16,545
Professional fees	6,183	6,214		6,214
Miscellaneous	2,650			
Total expenditures	2,088,571	1,942,306	1,908,200	34,106
DEFICIT OF REVENUES OVER EXPENDITURES	(2,082,159)	(1,930,439)	(1,896,333)	34,106
OTHER FINANCING SOURCES				
Transfers in (out)	738,782	640,649	615,801	(24,848)
NET CHANGE IN FUND BALANCES	$ (1,343,377)	$ (1,289,790)	$ (1,280,532)	$ 9,258

See notes to financial statements.