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WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

Management's Discussion and Analysis and Financial Statements

For the Year Ended December 31, 2007

And

Independent Auditors' Report

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Woodmen Heights Metropolitan District No. 1 (the District) as of and for the year ended December 31, 2007 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the governmental activities and each major fund of Woodmen Heights Metropolitan District No. 1 at December 31, 2007 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. The District's expenses have exceeded revenues by $1,645,460 during the year resulting in a net unrestricted deficit to the District of $7,514,617. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 2 – 4 and the budgetary comparison information on page 10 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic 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 22, 2008

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

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended December 31, 2007. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2007

- In 2007 net assets decreased by $1,645,460 or 74% when compared to 2006.
- Total revenues increased to $1,047,345 during 2007, a 4% increase from 2006.
- Total capital expenses decreased to $6 million in 2007 from $12 million in 2006.
- Net capital assets were $21.2 million in 2007, a 35% increase from 2006.
- Long-term debt was $29,820,000 for 2007.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District are accounted for on a flow of economic resources measurement focus. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America. The District's basic financial statements include:

- **Statement of net assets** – reports the District's current financial resources (short-term spend-able resources) with capital assets and long-term obligations. (See page 5).

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

STATEMENT OF NET ASSETS:

	2007	**2006**	**Percent Increase (Decrease)**
Current assets	$ 5,853,634	$ 13,299,526	(56) %
Capital assets — net	21,202,137	15,741,939	35 %
Other non-current assets	1,935,168	3,789,052	(49) %
Current liabilities	1,033,730	1,455,388	(29) %
Non-current liabilities	31,836,592	33,609,052	(5) %
Total net assets	$ (3,879,383)	$ (2,233,923)	74 %

The net capital assets of the District increased to $21.2 million during 2007, a $5 million increase over 2006. This was due to the build out of the following infrastructure: water mains on Cowpoke, Vollmer Road, Tutt and Forest Meadows as well as road improvements on Tutt, Sorpresa, Black Forest, Cowpoke, Vollmer and Forest Meadows. The 24" water main on Marksheffel and the storm sewer for Tutt were also completed. The decrease in current and other assets reflects the expenditure of funds for the aforementioned capital projects.

REVIEW OF REVENUE:

	2007	2006	Percent Increase (Decrease)
Charges for services	$ 258,065	$ 62,920	310 %
Interest	739,187	939,418	(21) %
Property tax	50,093	451	11,007 %
Total revenue	$ 1,047,345	$ 1,002,789	4 %

The increase in revenues in 2007 is due primarily to the District receiving facility fees, the PILOT payment, property tax revenues, and interest.

REVIEW OF EXPENSES:

	2007	2006	Percent Increase (Decrease)
Bond interest	$ 2,077,089	$ 2,273,257	(9) %
Capital outlay	5,923,987	12,168,975	(51) %
Bank charges	14,817	9,737	52 %
Professional fees	27,099	16,653	63 %
Insurance	2,310	8,070	(71) %
Miscellaneous	17,042	15,108	13 %
Total expenditures	$ 8,062,344	$ 14,491,800	(44) %

The construction of capital projects and interest payments for the bond fund comprise the majority of the expenses for 2007.

GENERAL OBLIGATION LIMITED TAX BONDS:

	2007	2006	Percent Increase (Decrease)
TOTAL TAX BONDS: SERIES 2005	$ 29,820,000	$ 29,820,000	—

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

Debt Outstanding:

The District issued Bond Series 2005 for $29,820,000 in bond funds on October 20, 2005. The schedule (see page 16) reflects the payments over the next 29 years using the annual mill levy of 25 and facility fees.

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

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

Additional Financial Information:

In October 2007, the Letter of Credit (LOC) that was required at the time of closing was not extended and the Trustee failed to draw on it three days prior to its expiration. Although the LOC was provided by a third party and not the District, the District continues to negotiate on a replacement LOC with the Trustee and has approved a $3,200 platting fee that will be used to help fund the LOC.

Woodmen Valley Chapel Church purchased land from Marksheffel-Woodmen Investments, LLC in June of 2007, which will increase the PILOT payment to $248,475 in 2008 and payments in 2009 and thereafter will be $312,022 for the next 26 years and the final payment in the 27th year will be $231,705.

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

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2007

ASSETS	
CURRENT ASSETS	
Cash deposits and investments	$ 5,299,461
Accounts receivable	76,302
Current portion of note receivable	101,262
Accrued interest receivable	110,410
Property taxes receivable	266,199
Total current assets	5,853,634
NON-CURRENT ASSETS	
Capital assets	21,202,137
Note receivable	1,935,168
Total non-current assets	23,137,305
TOTAL ASSETS	$ 28,990,939
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 489,858
Accrued interest	176,411
Current portion of deferred revenue	101,262
Deferred property taxes	266,199
Total current liabilities	1,033,730
NON-CURRENT LIABILITIES	
Developer advances	81,424
Bonds payable	29,820,000
Deferred revenue	1,935,168
Total non-current liabilities	31,836,592
Total liabilities	32,870,322
NET ASSETS (DEFICIT)	
Restricted for debt service	3,633,920
Restricted for emergency services	1,314
Unrestricted accumulated deficit	(7,514,617)
Net deficit	(3,879,383)
TOTAL LIABILITIES AND NET ASSETS	$ 28,990,939

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net Revenue and Change in Net Assets Primary Government — Governmental Activities
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT				
General government	$ 508,008	$ 307,035		$ (200,973)
Fiscal charges	17,049			(17,049)
Interest on long-term debt	2,077,089			(2,077,089)
Total primary government	$ 2,602,146	$ 307,035	$ —	(2,295,111)
GENERAL REVENUES				
Interest earned on cash and cash equivalents				591,293
Interest earned on note receivable				58,358
Total general revenue				649,651
CHANGE IN NET ASSETS				(1,645,460)
NET ASSETS — Beginning of year				(2,233,923)
NET ASSETS — End of year				$ (3,879,383)

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

BALANCE SHEET — GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash deposits and investments	$ 17,081	$ 1,434,503	$ 3,847,877	$ 5,299,461
Accounts receivable		76,302		76,302
Total assets	$ 17,081	$ 1,510,805	$ 3,847,877	$ 5,375,763
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	—	$ 489,858	—	$ 489,858
FUND BALANCES				
Reserved for capital projects		1,434,503		1,434,503
Reserved for debt service			$ 3,633,920	3,633,920
Unreserved fund balance (deficit)	$ 17,081	(413,556)	213,957	(182,518)
Total fund balances	17,081	1,020,947	3,847,877	4,885,905
Total liabilities and fund balances	$ 17,081	$ 1,510,805	$ 3,847,877	

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	21,202,137
Liabilities and receivables are not due and payable in the current period and therefore are not reported in the funds	
Developer advances	(81,424)
Bonds payable	(29,820,000)
Accrued interest payable	(176,411)
Accrued interest receivable	110,410
Net assets (deficit) of government activities	$ (3,879,383)

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE				
Interest		$ 256,059	$ 483,128	$ 739,187
Charges for services			258,065	258,065
Property taxes			50,093	50,093
Total revenue	$ —	256,059	791,286	1,047,345
EXPENDITURES				
Capital outlay		5,923,987		5,923,987
Bond interest			2,077,089	2,077,089
Professional fees	26,432		667	27,099
Bank charges	240	13,704	873	14,817
Insurance	2,310			2,310
Miscellaneous	14,810		2,232	17,042
Total expenditures	43,792	5,937,691	2,080,861	8,062,344
DEFICIT OF REVENUES OVER EXPENDITURES	(43,792)	(5,681,632)	(1,289,575)	(7,014,999)
OTHER FINANCING SOURCES (USES)				
Developer advances	81,424			81,424
Transfers in (out)	19,280	(191,199)	171,919	
Total other financing sources (uses)	100,704	(191,199)	171,919	81,424
NET CHANGE IN FUND BALANCES	56,912	(5,872,831)	(1,117,656)	(6,933,575)
FUND BALANCES — Beginning of year	(39,831)	6,893,778	4,965,533	11,819,480
FUND BALANCES — End of year	$ 17,081	$ 1,020,947	$ 3,847,877	$ 4,885,905

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

RECONCILIATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2007

NET CHANGE IN GOVERNMENTAL FUND BALANCES	$ (7,014,999)
Amounts reported for the governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $5,923,987 exceeded depreciation of $(463,789) in the current period.	5,460,198
In the statement of activities, interest and charges are accrued on outstanding bonds, whereas, in governmental funds, they are reported when due	(90,659)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (1,645,460)

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL — GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2007

	Budget Amounts			
	Original	Final	Actual	Variance
REVENUE				
Property taxes	$ 13,508	$ 14,313		$ (14,313)
EXPENDITURES				
Professional fees	17,150	12,120	$ 26,432	(14,312)
Insurance	4,500	4,485	2,310	2,175
Miscellaneous	63,789	15,120	15,050	70
Total expenditures	85,439	31,725	43,792	(12,067)
Deficit of revenues over expenditures	(71,931)	(17,412)	(43,792)	(26,380)
OTHER FINANCING SOURCES (USES)				
Developer advances	72,000	37,424	81,424	44,000
Transfers in			19,280	19,280
Total other financing sources (uses)	72,000	37,424	100,704	63,280
Net change in fund balances	$ 69	$ 20,012	$ 56,912	$ 36,900

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — Woodmen Heights Metropolitan District No. 1 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 Woodmen Heights Metropolitan District Nos. 2 and 3.

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

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

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

Government-wide and Fund Financial Statements — The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type-activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Basis of 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 year end the District has an unrestricted deficit of $7,514,617. Additionally, a letter of credit that was provided as security for the bonds was not renewed, the bond trustee failed to draw on it before expiration, and management had been expecting to draw on this letter of credit to pay the December 2008 bond payment (see Note 4). These factors 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. Management intends to obtain a new letter of credit in addition to obtaining new financing sources. Additionally, management has imposed a new facility fee due at platting of $3,200, for all new platting done in the District.

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

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

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

The District reports the following major governmental funds:

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

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

<u>Debt Service Fund</u> — The debt service fund accounts for the servicing of general long-term debt and revenues generated and received by the District that are required to be used in payment of long-term debt.

Budgets — In the fall, the District manager is required to submit to the Board of Directors a budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at the District to obtain taxpayer comments. Prior to December 31, the budget is legally enacted by the Board. The manager is authorized to transfer budgeted amounts between line items of the District; however, any revisions that alter the total expenditures of the District must be approved by the Board of Directors.

Capital Assets — All development costs in excess of $500 which have a useful life of greater than one year and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the lives of assets are capitalized. Public improvements are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from twenty to forty years.

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

Fair Value of Financial Instruments — The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and advances payable. The District estimates that the fair value of all financial instruments at December 31, 2007 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

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

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

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

2. CASH DEPOSITS AND INVESTMENTS

Cash deposits and investments as of December 31, 2007 are classified in the accompanying financial statements as follows:

Cash deposits	$ 2,317,461
Investments	2,982,000
Cash deposits and investments	$ 5,299,461

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, 2007, the bank balance of the District's cash was $2,441,619. Bank balances of $200,000 were covered by federal depository insurance and $2,241,619 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, 2007, the District investments reported on the financial statements can be summarized as follows:

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

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, 2007 is as follows:

	Balance at January 1, 2007	Increase	Decrease	Transfers	Balance at December 31, 2007
Water and sewer systems	$ 6,245,794	$ 396,883		$ 3,069,141	$ 9,711,818
Roads and drainage	3,165,994	422,195		3,818,587	7,406,776
Construction in process	6,487,373	5,104,909		(6,887,728)	4,704,554
	15,899,161	5,923,987		—	21,823,148
Accumulated depreciation	(157,222)	(463,789)			(621,011)
Net capital assets	$15,741,939	$ 5,460,198	$ —	$ —	$21,202,137

Depreciation expense charged to government-wide activities for the year ending December 31, 2007 was $463,789.

4. REVENUE BONDS

A summary of bonds payable is as follows:

	Balance at January 1, 2007	Increase	Decrease	Balance at December 31, 2007	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	$ —

The Trust Indenture for the bonds contemplated that, at bond closing, the District cause a letter of credit be provided in the amount of $2,000,000 as security for the bonds. The District fulfilled its obligation when the letter of credit was provided by a third party at closing of the bonds in 2005. The third party extended the letter of credit in 2006 and it expired in October 2007 when it was not extended. The Trustee has asserted that it was misled by the third party individual who provided the letter of credit and the individual's bank that issued the letter of credit and as a result it did not draw on the letter of credit prior to its expiration. The Trustee has indicated that it intends to enforce all legal rights and remedies in connection with this matter against the individual, the bank and any other party on whose behalf they might have been acting, which could include the District.

The District and its counsel believe that the District complied with the requirement of the Trust Indenture by causing a letter of credit to be in place at the time of closing of the bonds. Further, the District and its counsel believe that there was not any requirement imposed on the District to cause the letter of credit to be renewed by the third party beyond the initial term because the Trustee, pursuant to Trust Indenture covenants and obligations specifically imposed on the Trustee, had the opportunity and unconditional obligation to draw on the letter of credit prior to its expiration and it failed to do so.

Payment of the principal and interest on the bonds will be from pledge revenues such as property taxes received for District Nos. 2 and 3; specific ownership taxes, and facility fees as District Nos. 2 and 3 develop. After the majority of properties in District Nos. 2 and 3 have been sold, homes, commercial facilities and other improvements have been constructed and the resulting tax base has had time to develop, the source of payment of debt service on the Bonds will be primarily paid from the limited mill levy to be levied on the taxable property within District Nos. 2 and 3.

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

Year Ending December 31,	Sinking Fund	Interest	Total
2008		$ 2,077,088	$ 2,077,088
2009		2,077,088	2,077,088
2010		2,077,088	2,077,088
2011		2,077,088	2,077,088
2012		2,077,088	2,077,088
2013 — 2017	$ 1,460,000	10,269,000	11,729,000
2018 — 2022	5,495,000	9,284,550	14,779,550
2023 — 2027	11,840,000	6,559,350	18,399,350
2028 — 2030	11,025,000	1,584,098	12,609,098
Total	$ 29,820,000	$ 38,082,438	$ 67,902,438

5. INTERGOVERNMENTAL AGREEMENT

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

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

6. NOTE RECEIVABLE

During 2005, the District entered into an Agreement for Payment in Lieu of Taxes (PILOT Agreement) with a Colorado not-for-profit organization (the Organization) located within the boundaries of related Woodmen Heights Metropolitan District No. 3 (see Note 4). Because the District will recover the costs of infrastructure primarily through taxes assessed on property located within Districts No. 2 and No. 3, and the not-for-profit entity is exempt from payment of property taxes, the not-for-profit organization has agreed to pay the District its share of the District's initial infrastructure costs over a thirty-year period. The Organization's share of costs is based on estimated infrastructure costs of $35,989,099 multiplied by the percentage of total District property owned by the Organization. The 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, 2007 the Promissory Note was revised reducing the outstanding balance on the note by $1,713,228. Effective April 1, 2008, the previous reduction was added back to the outstanding balance. Under the revised terms, the Promissory Note continues to bear interest at 7%, and is due as follows (including the amount added back as of April 1, 2008):

Year Ending December 31,	**Principal**	**Interest**	**Total**
2008	$ 101,262	$ 147,214	$ 248,476
2009	48,279	263,743	312,022
2010	51,769	260,253	312,022
2011	55,512	256,510	312,022
2012	59,525	252,497	312,022
2013 — 2017	368,738	1,191,372	1,560,110
2018 — 2022	522,732	1,037,378	1,560,110
2023 — 2027	741,038	819,072	1,560,110
2028 — 2032	1,050,515	509,595	1,560,110
2033 — 2035	750,288	105,464	855,752
Total	3,749,658	$ 4,843,098	$ 8,592,756
Less April 1, 2008 adjustment	1,713,228		
Balance at December 31, 2007	$ 2,036,430		

7. JOINT USE AGREEMENT

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

8. ADVANCES DUE RELATED PARTIES

The District has received advances from entities controlled by the members of the District's Board of Directors. As of December 31, 2007 the District had received advances totaling $81,424. The advances are long-term, unsecured, and bear interest at 8% per annum.

9. NET ASSETS

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2007, the District had no investment in capital assets, net of related debt.

Restricted assets include net assets that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has $3,635,234 of restricted net assets as of December 31, 2007.

As of December 31, 2007, the District had unrestricted net assets (deficit) of $(7,514,617).

10. RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2007. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members.

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

11. PURCHASE COMMITMENTS

During 2007 and 2006, the District entered into several agreements with contractors for construction to be completed during 2008. The District makes payments on the contracts when progress billings are received. At December 31, 2007, the District had not yet been billed for approximately $150,000 associated with these contracts and related change orders.

12. TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

The District elected to be exempt from the TABOR provisions.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

SUPPLEMENTAL SCHEDULES

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL — CAPITAL PROJECTS FUND FOR THE YEAR ENDED DECEMBER 31, 2007

	Budget Amounts			
	Original	Final	Actual	Variance
REVENUE				
Interest	$ 58,850	$ 256,186	$ 256,059	$ (127)
EXPENDITURES				
Capital outlay	14,022,203	6,777,116	5,923,987	853,129
Bank charges	9,200	12,952	13,704	(752)
Total expenditures	14,031,403	6,790,068	5,937,691	852,377
Deficit of revenues over expenditures	(13,972,553)	(6,533,882)	(5,681,632)	852,250
OTHER FINANCING SOURCES —				
Developer advances	6,000,000			
Transfers in (out)	225,363	277,839	(191,199)	(469,038)
Net change in fund balances	$ (7,747,190)	$ (6,256,043)	$ (5,872,831)	$ 383,212

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL — DEBT SERVICE FOR THE YEAR ENDED DECEMBER 31, 2007

	Budget Amounts			
	Original	Final	Actual	Variance
REVENUE				
Interest	$ 348,277	$ 334,718	$ 483,128	$ 148,410
Charges for services	1,199,959	405,959	258,065	(147,894)
Property taxes	33,767	35,776	50,093	14,317
Total revenue	1,582,003	776,453	791,286	14,833
EXPENDITURES				
Bond interest	2,077,088	2,077,088	2,077,089	(1)
Bank charges	450	840	873	(33)
Miscellaneous	3,123	1,802	2,899	(1,097)
Total expenditures	2,080,661	2,079,730	2,080,861	(1,131)
Deficit of revenues over expenditures	(498,658)	(1,303,277)	(1,289,575)	13,702
OTHER FINANCING SOURCES				
Transfers in		483	171,919	171,436
Net change in fund balances	$ (498,658)	$ (1,302,794)	$ (1,117,656)	$ 185,138

See notes to financial statements.