

**WOODMEN HEIGHTS
METROPOLITAN DISTRICTS**

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

For the Year Ended December 31, 2009

And

Independent Auditors' Report

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Woodmen Heights Metropolitan Districts

We have audited the accompanying financial statements of the governmental activities and each major fund of the Woodmen Heights Metropolitan Districts (the District) as of and for the year ended December 31, 2009 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 the Woodmen Heights Metropolitan Districts at December 31, 2009 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 have exceeded revenues by \$1,563,091 during 2009. 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.

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

Our audit was 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 28, 2010

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

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, 2009. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2009

- In 2009 net assets decreased by \$17.6 million or 397% when compared to 2008.
- Total revenues decreased to \$1,967,014 during 2009, a 12% decrease from 2008.
- Total capital expenses increased to \$7.7 million in 2009 from \$6.9 million in 2008.
- Net capital assets were \$13.8 million in 2009, a 45% decrease from 2008.
- Long-term debt stayed the same at \$29,820,000 for 2009.

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:

	2009	2008	Percent Increase (Decrease)
Current assets	\$ 2,099,904	\$ 3,739,679	(46)%
Capital assets, net	13,843,418	25,225,292	(45)%
Other non-current assets	3,600,117	3,600,117	0 %
Current liabilities	1,787,691	3,590,699	(50)%
Non-current liabilities	<u>39,830,265</u>	<u>33,420,117</u>	19 %
Total net assets	<u>\$ (22,074,517)</u>	<u>\$ (4,445,728)</u>	397 %

The net capital assets of the District decreased to \$13.8 million during 2009, an \$11.4 million decrease over 2008. This was due to some of the infrastructure that was approved and accepted by the City. The increase in non-current liabilities was from developer improvements to the District that, if possible, will be paid by the District in future years.

REVIEW OF REVENUE:

	2009	2008	Percent Increase (Decrease)
Charges for services	\$ 1,031,872	\$ 1,578,415	(35)%
Interest	357,903	308,002	72 %
Property tax	<u>577,239</u>	<u>341,692</u>	69 %
Total revenue	<u>\$ 1,967,014</u>	<u>\$ 2,228,109</u>	(12)%

The decrease in fund revenues in 2009 is due primarily to the District not receiving the PILOT payment of \$312,022 from Woodmen Valley Church, which was instead used for District improvements.

REVIEW OF EXPENSES:

	2009	2008	Percent Increase (Decrease)
Capital outlay	\$ 5,550,874	\$ 4,786,453	16 %
Bond interest	2,077,088	2,077,089	0 %
Professional fees	92,952	27,666	236 %
Bank charges	3,812	4,412	(14)%
Insurance	10,545	3,924	169 %
Miscellaneous	<u>7,163</u>	<u>5,462</u>	31 %
Total expenditures	<u>\$ 7,742,434</u>	<u>\$ 6,905,006</u>	12 %

The construction of capital projects and interest payments for the bond fund comprise the majority of the expenses for 2009. Legal expenses were higher in 2009 due to the Sorpresa ROW litigation and the LOC with American National Bank issues.

GENERAL OBLIGATION LIMITED TAX BONDS:

	2009	2008	Percent Increase (Decrease)
TOTAL TAX BONDS: SERIES 2005	<u>\$ 29,820,000</u>	<u>\$ 29,820,000</u>	0 %

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

Debt Outstanding:

The District issued Bond Series 2005 for \$29,820,000 in bond funds on October 20, 2005. The schedule (see page 18) reflects the payments over the next 28 years using the annual mill levy of 30 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).

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.

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 be open to negotiate a replacement LOC. The Trustee withdrew approximately \$1,520,103 from the Debt Service Reserve (DSR) fund for the June 1 and December 1, 2009 debt service payment, which left a total of about \$1.017 million in the DSR fund at December 31, 2009.

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in the report or wish to request additional financial information, please contact the Woodmen Heights Metropolitan Districts, Terry Schooler, District Manager at 455 E. Pikes Peak Avenue, Suite 308, Colorado Springs, Colorado 80903.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

DECEMBER 31, 2009

ASSETS

Cash deposits and investments	\$ 1,311,291
Property taxes receivable	593,423
Note receivable	3,600,117
Accrued interest receivable	195,190
Capital assets	<u>13,843,418</u>
TOTAL ASSETS	<u>19,543,439</u>

LIABILITIES

Accounts payable	548,979
Accrued interest	645,289
Deferred property taxes	593,423
Non-current liabilities:	
Bonds payable	29,820,000
Deferred revenue	3,600,117
Developer advances	<u>6,410,148</u>
TOTAL LIABILITIES	<u>41,617,956</u>

NET ASSETS (DEFICIT)

Restricted for debt service	1,080,964
Restricted for emergency services	2,952
Unrestricted accumulated deficit	<u>(23,158,433)</u>
NET DEFICIT	<u>\$ (22,074,517)</u>

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

	Expenses	<u>Program Revenues</u>		Net Revenue and Change in Net Assets Primary Government — Governmental Activities
		Charges for Services	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT				
General government	\$ 17,040,879	\$ 1,606,582		\$ (15,434,297)
Fiscal charges	3,812			(3,812)
Interest on long-term debt	<u>2,545,966</u>			<u>(2,545,966)</u>
Total primary government	<u>\$ 19,590,657</u>	<u>\$ 1,606,582</u>	<u>\$ —</u>	<u>(17,984,075)</u>
GENERAL REVENUES				
Interest earned on cash and cash equivalents				91,543
Interest earned on note receivable				<u>263,743</u>
Total general revenue				<u>355,286</u>
CHANGE IN NET ASSETS				(17,628,789)
NET ASSETS, Beginning of year				<u>(4,445,728)</u>
NET ASSETS, End of year				<u>\$ (22,074,517)</u>

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

BALANCE SHEET — GOVERNMENTAL FUNDS

DECEMBER 31, 2009

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Govern- mental Funds
ASSETS					
Cash deposits and investments	\$ 113,656		\$ 116,671	\$ 1,080,964	\$ 1,311,291
Property taxes receivable		\$ 593,423			593,423
Total assets	<u>\$ 113,656</u>	<u>\$ 593,423</u>	<u>\$ 116,671</u>	<u>\$ 1,080,964</u>	<u>\$ 1,904,714</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 2,152		\$ 12,265		\$ 14,417
Deferred property tax revenue		\$ 593,423			593,423
Total liabilities	<u>2,152</u>	<u>593,423</u>	<u>12,265</u>	<u>\$ —</u>	<u>607,840</u>
FUND BALANCES					
Reserved for capital projects			104,406	1,080,964	104,406
Reserved for debt service					1,080,964
Reserved for emergency service	2,952				2,952
Unreserved fund balance	<u>108,552</u>				<u>108,552</u>
Total fund balances	<u>111,504</u>	<u>—</u>	<u>104,406</u>	<u>1,080,964</u>	<u>1,296,874</u>
Total liabilities and fund balances	<u>\$ 113,656</u>	<u>\$ 593,423</u>	<u>\$ 116,671</u>	<u>\$ 1,080,964</u>	

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

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

13,843,418

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

Developer advances

(6,410,148)

Accounts payable

(534,562)

Bonds payable

(29,820,000)

Accrued interest payable

(645,289)

Accrued interest receivable

195,190

Net assets (deficit) of government activities

\$(22,074,517)

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE					
Charges for services		\$ 147,755	\$ 884,117		\$ 1,031,872
Property taxes		577,239			577,239
Interest			266,459	\$ 91,444	357,903
Total revenue	\$ —	724,994	1,150,576	91,444	1,967,014
EXPENDITURES					
Capital outlay			5,550,874		5,550,874
Bond interest				2,077,088	2,077,088
Professional fees	82,525	8,997	1,430		92,952
Insurance	10,545				10,545
Bank charges	174		99	3,539	3,812
Miscellaneous	5,163			2,000	7,163
Total expenditures	98,407	8,997	5,552,403	2,082,627	7,742,434
DEFICIT OF REVENUES OVER EXPENDITURES	(98,407)	715,997	(4,401,827)	(1,991,183)	(5,775,420)
OTHER FINANCING SOURCES (USES)					
Developer advances			4,212,329		4,212,329
Transfers in (out)	60,945	(715,997)	125,001	530,051	
Total other financing sources (uses)	60,945	(715,997)	4,337,330	530,051	4,212,329
NET CHANGE IN FUND BALANCES	(37,462)	—	(64,497)	(1,461,132)	(1,563,091)
FUND BALANCES, Beginning of year	148,966	—	168,903	2,542,096	2,859,965
FUND BALANCES, End of year	\$ 111,504	\$ —	\$ 104,406	\$ 1,080,964	\$ 1,296,874

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

RECONCILIATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

NET CHANGE IN GOVERNMENTAL FUND BALANCES \$ (1,563,091)

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 \$5,550,874 exceeded depreciation of \$369,809 in the current period.

5,181,065

Capital assets are not current resources, therefore the transfer of capital assets to other governmental entities is not reported in the governmental funds.

(16,562,939)

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.

(4,212,329)

In the statement of activities, interest and charges are accrued on outstanding bonds, whereas, in governmental funds, they are reported when due.

(471,495)

CHANGE IN NET ASSETS OF GOVERNMENTAL
ACTIVITIES

\$ (17,628,789)

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Charges for services	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
EXPENDITURES				
Professional fees	168,639	151,568	82,525	69,043
Insurance	5,000	5,612	10,545	(4,933)
Miscellaneous	<u>11,250</u>	<u>7,311</u>	<u>5,337</u>	<u>1,974</u>
Total expenditures	<u>184,889</u>	<u>164,491</u>	<u>98,407</u>	<u>66,084</u>
Deficit of revenues over expenditures	(184,889)	(164,491)	(98,407)	66,084
OTHER FINANCING SOURCES				
Transfers in	<u>136,373</u>	<u>142,872</u>	<u>60,945</u>	<u>(81,927)</u>
NET CHANGE IN FUND BALANCES	<u>\$ (48,516)</u>	<u>\$ (21,619)</u>	<u>\$ (37,462)</u>	<u>\$ (15,843)</u>

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Budget Amounts</u>		Actual	Variance
	Original	Final		
REVENUE				
Charges for services	\$ 500,783	\$ 154,473	\$ 147,755	\$ (6,718)
Property taxes	<u>553,246</u>	<u>577,585</u>	<u>577,239</u>	<u>(346)</u>
Total revenue	1,054,029	732,058	724,994	(7,064)
EXPENDITURES				
Professional fees	<u>7,756</u>	<u>7,899</u>	<u>8,997</u>	<u>(1,098)</u>
Deficit of revenues over expenditures	1,046,273	724,159	715,997	(8,162)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>(1,046,273)</u>	<u>(724,159)</u>	<u>(715,997)</u>	<u>8,162</u>
NET CHANGE IN FUND BALANCES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity Combined — Woodmen Heights Metropolitan District's 1, No. 2 and No. 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 Woodmen Heights Metropolitan Districts No. 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.

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

Woodmen Heights Metropolitan Districts #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 Districts #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 Districts No. 2 and 3 and are blended into the District financial statements. Separate financial statements for Districts No. 2 and 3 can be obtained from the Woodmen Heights Metropolitan Districts, 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 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 December 31, 2009 the District has an unrestricted deficit of \$(23,158,433). Additionally, a letter of credit that was provided as security for the District's 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 make bond interest payments (see Note 4). The District has had to draw on the bond reserve fund to finance the bond interest payments. The Former Trustee has deposited \$2,000,000 into the Trust Estate which the District intends to use for bond payments. 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. 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 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.

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, 2009 do 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.

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.

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.

Reserved 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). \$2,952 has been reserved in compliance with this requirement.

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 28, 2010, the date the financial statements were available for issuance.

2. CASH DEPOSITS AND INVESTMENTS

Cash deposits and investments as of December 31, 2009 are classified in the accompanying financial statements as follows:

Cash deposits	\$ 293,971
Investments	<u>1,017,320</u>
Cash deposits and investments	<u>\$ 1,311,291</u>

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, 2009, the bank balance of the District’s cash was \$1,307,928. Bank balances of \$215,601 were covered by federal depository insurance and \$1,092,327 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, 2009, the District investments reported on the financial statements can be summarized as follows:

Investment	Investment Maturities (in years)		Total
	Less than 1	More than 5	
International Agency Security	\$ —	\$ 1,017,320	\$ 1,017,320

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, 2009 is as follows:

	Balance at January 1, 2009	Increase	Decrease	Transfers	Balance at December 31, 2009
Water and sewer systems	\$ 13,901,883	\$ 885,301	\$ (11,009,488)	\$ 997,606	\$ 4,775,302
Roads and drainage	11,341,098	512,141	(6,731,459)	369,014	5,490,794
Construction in process	<u>1,366,620</u>	<u>4,153,432</u>		<u>(1,366,620)</u>	<u>4,153,432</u>
	26,609,601	5,550,874	(17,740,947)	—	14,419,528
Accumulated depreciation	<u>(1,384,309)</u>	<u>(369,809)</u>	<u>1,178,008</u>		<u>(576,110)</u>
Net capital assets	<u>\$ 25,225,292</u>	<u>\$ 5,181,065</u>	<u>\$ (16,562,939)</u>	<u>\$ —</u>	<u>\$ 13,843,418</u>

Depreciation expense charged to government-wide activities for public improvements for the year ending December 31, 2009 was \$369,809.

During 2009, a significant portion of the capital assets constructed and acquired by the District were conveyed to other governmental entities. The costs of all capital assets transferred to other governmental entities were removed from the District's financial records.

4. BONDS PAYABLE

A summary of bonds payable is as follows:

	Balance at January 1, 2009	Increase	Decrease	Balance at December 31, 2009	Amounts Due Within One Year
Revenue Bonds Series					
2005 — \$29,820,000					
originally issued with					
6.75 – 7.00% interest	<u>\$ 29,820,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,820,000</u>	<u>\$ —</u>

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. Subsequent to year-end, the Former Trustee deposited \$2,000,000 into the Trust Estate pursuant to the terms of a Settlement and Release Agreement reached with the District and the bond Holders.

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 Former Trustee, pursuant to Trust Indenture covenants and obligations specifically imposed on the Former 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 No. 2 and 3; specific ownership taxes, and facility fees as District No. 2 and 3 develop. After the majority of properties in District No. 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 No. 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
2010		\$ 2,077,091	\$ 2,077,091
2011		2,077,091	2,077,091
2012		2,077,091	2,077,091
2013	\$ 95,000	2,077,091	2,172,091
2014	135,000	2,070,678	2,205,678
2015 — 2019	2,840,000	10,032,084	12,872,084
2020 — 2024	7,700,000	8,448,113	16,148,113
2025 — 2029	15,155,000	4,796,400	19,951,400
2030	<u>3,895,000</u>	<u>272,649</u>	<u>4,167,649</u>
Total	<u>\$ 29,820,000</u>	<u>\$ 33,928,288</u>	<u>\$ 63,748,288</u>

Voters in the District authorized the District to be able to incur a maximum of \$31,250,000 of debt. Subsequent to the issuance of the 2005 Bonds, the District has \$16,600,000 in authorized but unissued debt. The District does not have any intention to issue additional debt at this time.

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 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 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
2010	\$ 51,769	\$ 260,253	\$ 312,022
2011	55,512	256,510	312,022
2012	59,525	252,497	312,022
2013	63,828	248,194	312,022
2014	68,442	243,580	312,022
2015 — 2019	423,978	1,136,132	1,560,110
2020 — 2024	601,041	959,069	1,560,110
2025 — 2029	852,050	708,060	1,560,110
2030 — 2034	1,207,889	352,221	1,560,110
2035	<u>216,083</u>	<u>15,621</u>	<u>231,704</u>
Total	<u>\$ 3,600,117</u>	<u>\$ 4,432,137</u>	<u>\$ 8,032,254</u>

During the year ended December 31, 2009, the Organization made its payment to the District in the form of capital improvements that the Organization constructed on behalf of the District.

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. Advances due related parties include improvements made by a developer for which the District has been unable to obtain the cost of the improvements and the amount due the developer. As a result, the District has estimated the cost of the improvements and the related amount due the developer to be approximately \$4,153,000. There is a reasonable possibility that recorded estimates for improvements and advances due related parties could change by a material amount.

As of December 31, 2009 the District had received advances totaling \$6,410,148. The advances are classified as non-current are unsecured and bear interest at 7% 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, 2009, 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 \$1,083,916 of restricted net assets as of December 31, 2009.

As of December 31, 2009, the District had unrestricted net assets (deficit) of \$(23,158,433).

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, 2009. 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. 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 DISTRICTS

SUPPLEMENTAL SCHEDULES

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

CAPITAL PROJECTS FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Budget Amounts</u>		Actual	Variance
	Original	Final		
REVENUE				
Charges for services	\$ 200,000	\$ 838,455	\$ 884,117	\$ 45,662
Interest	<u>768</u>	<u>99</u>	<u>266,459</u>	<u>266,360</u>
Total revenue	<u>200,768</u>	<u>838,554</u>	<u>1,150,576</u>	<u>312,022</u>
EXPENDITURES				
Capital outlay	632,719	1,006,537	5,550,874	(4,544,337)
Professional fees			1,430	(1,430)
Bank charges	<u>950</u>	<u>99</u>	<u>99</u>	<u></u>
Total expenditures	<u>633,669</u>	<u>1,006,636</u>	<u>5,552,403</u>	<u>(4,545,767)</u>
DEFICIT OF REVENUES OVER EXPENDITURES				
	<u>(432,901)</u>	<u>(168,082)</u>	<u>(4,401,827)</u>	<u>(4,233,745)</u>
OTHER FINANCING SOURCES —				
Developer advances			4,212,329	4,212,329
Transfers in (out)	<u></u>	<u></u>	<u>125,001</u>	<u>125,001</u>
Total other financing sources	<u>—</u>	<u>—</u>	<u>4,337,330</u>	<u>4,337,330</u>
NET CHANGE IN FUND BALANCES				
	<u>\$ (432,901)</u>	<u>\$ (168,082)</u>	<u>\$ (64,497)</u>	<u>\$ 103,585</u>

See notes to financial statements.

WOODMEN HEIGHTS METROPOLITAN DISTRICTS

DEBT SERVICE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Budget Amounts</u>		Actual	Variance
	Original	Final		
REVENUE				
Interest	<u>\$ 110,289</u>	<u>\$ 99</u>	<u>\$ 91,444</u>	<u>\$ 91,345</u>
EXPENDITURES				
Bond interest	2,077,088	2,077,088	2,077,088	
Bank charges	5,050	57,485	3,539	53,946
Miscellaneous	<u>2,650</u>	<u> </u>	<u>2,000</u>	<u>(2,000)</u>
Total expenditures	<u>2,084,788</u>	<u>2,134,573</u>	<u>2,082,627</u>	<u>51,946</u>
DEFICIT OF REVENUES OVER EXPENDITURES	(1,974,499)	(2,134,474)	(1,991,183)	143,291
OTHER FINANCING SOURCES				
Transfers in	<u>921,534</u>	<u>580,474</u>	<u>530,051</u>	<u>(50,423)</u>
NET CHANGE IN FUND BALANCES	<u>\$ (1,052,965)</u>	<u>\$ (1,554,000)</u>	<u>\$ (1,461,132)</u>	<u>\$ 92,868</u>

See notes to financial statements.
