



WOODMEN HILLS METROPOLITAN DISTRICT

Management's Discussion and Analysis,

Financial Statements,

And Supplemental Information

For the Years Ended December 31, 2020 and 2019

And

Independent Auditors' Report

WOODMEN HILLS METROPOLITAN DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Woodmen Hills Metropolitan District

We have audited the accompanying financial statements of Woodmen Hills Metropolitan District (the District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Woodmen Hills Metropolitan District as of December 31, 2020 and 2019, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to 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 our 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.

Report on Other Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedule as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stockman Kast Ryan + Co. LLP

June 24, 2021

WOODMEN HILLS METROPOLITAN DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents the highlights of the District's financial activities and financial position. The analysis focuses on significant financial issues and major financial activity and the resulting changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Supplemental Information. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets, deferred outflows and liabilities, with the difference between these balances reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as an underlying event giving rise to the change occurs, regardless of the time of related cash flows. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District uses an Enterprise Fund to account for its water and wastewater treatment operations. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 to 20 of this report.

FINANCIAL POSITION AND RESULTS FROM OPERATIONS

As of the current fiscal year, as well as in the previous two fiscal years, the District is able to report a positive balance in its net position:

	2020	2019	2018
ASSETS			
Current assets	\$ 14,705,121	\$ 15,958,639	\$ 14,421,357
Capital assets	59,992,126	57,586,899	57,349,405
Non-current assets	<u>1,846,205</u>	<u>1,899,716</u>	<u>1,962,584</u>
Total assets	<u>76,543,452</u>	<u>75,445,254</u>	<u>73,733,346</u>
DEFERRED OUTFLOWS	<u>267,993</u>	<u>322,500</u>	<u>377,007</u>

	2020	2019	2018
LIABILITIES			
Current liabilities	1,765,936	1,553,363	1,992,712
Capital lease payables, long-term	16,590,000	17,115,000	17,625,000
Bond payables, long-term	13,235,000	13,790,000	14,330,000
Unearned revenues	<u>213,000</u>	<u>213,000</u>	<u>213,000</u>
Total liabilities	<u>31,590,936</u>	<u>32,671,363</u>	<u>34,160,712</u>
NET POSITION			
Net investment in capital assets	29,355,119	25,954,399	24,936,677
Restricted	167,876	139,524	301,904
Unrestricted	<u>15,697,514</u>	<u>17,002,468</u>	<u>14,711,060</u>
Total net position	<u>\$ 45,220,509</u>	<u>\$ 43,096,391</u>	<u>\$ 39,949,641</u>

The District's current assets decreased by \$1,253,518 due to a decrease in cash and cash equivalents available for current operations.

The District's total capital assets increased by \$2,405,227 as of December 31, 2020 largely due to a west water project, further improvements to the Park and Recreational facility and new purchases during 2020. The District did not receive any capital contributions in 2020.

The District's non-current assets decreased by \$53,511 due to restricted monies spent on bond payments.

Current liabilities increased by \$212,573 due to timing of payments.

As noted, net position may, over time serve as a useful indicator of the District's financial position. Assets and deferred outflows exceeded liabilities by \$45,220,509 at the close of the most recent fiscal year.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating and Non-Operating Revenue and Expenses were as follows:

	2020	2019	2018
OPERATING REVENUE			
Water and wastewater service fees	\$ 6,001,177	\$ 6,632,746	\$ 5,373,043
Park and recreation service fees	<u>1,995,564</u>	<u>1,916,699</u>	<u>1,787,183</u>
Total operating fees	7,996,741	8,549,445	7,160,226
Other fees	<u>826,566</u>	<u>603,467</u>	<u>984,351</u>
Total operating revenue	8,823,307	9,152,912	8,144,577
OPERATING EXPENSES	<u>6,668,955</u>	<u>5,675,739</u>	<u>5,887,935</u>
OPERATING INCOME	2,154,352	3,477,173	2,256,642

	2020	2019	2018
NON-OPERATING EXPENSES	<u>(30,234)</u>	<u>(330,423)</u>	<u>(348,624)</u>
Change in net position	2,124,118	3,146,750	1,908,018
NET POSITION, Beginning of year	<u>43,096,391</u>	<u>39,949,641</u>	<u>38,041,623</u>
NET POSITION, End of year	<u>\$ 45,220,509</u>	<u>\$ 43,096,391</u>	<u>\$ 39,949,641</u>

Operating revenue decreased by \$329,605 in 2020 due to a decrease in water acquisition fees, partially offset by an increase in water rates.

There was operating income of \$2,154,352 in 2020 compared to \$3,477,173. A large part of the decrease in operating income in the current year was due to an increase in operating expenses.

There were no contributions received by the District in 2020.

ADDITIONAL FINANCIAL INFORMATION

The District's upgrades to meet current EPA standards and regulations are complete as of January 2020. See Note 9 to the financial statements which more fully discusses this matter. There are new regulations that will require improvements to the RWRF. Compliance would be no sooner than five years from the date of this report.

Falcon Vista Exfiltration Gallery is complete and in operation.

In late 2015/early 2016 management and the district engineer developed the 2016 Financial Plan. The plan identifies non-discretionary water and sewer improvements. Management believes that the District's cash reserves are adequate to execute the plan. Since the 2016 Financial Plan was drafted new regulations have come into play that will require significant capital outlays.

On March 29, 2016, the District refinanced its existing debt. As part of the refinancing the District was required to commission a rate study and a market study. Management will recommend a current rate and market study be done in 2022.

The District is currently meeting the recommendations defined in the rate study, but the District will not meet the revenue projections contained in the market study.

Major areas of new development that the District anticipates for tap fees sales.

- Bent Grass Metro District (Woodmen Hills)
- Falcon Highlands Metropolitan District
- Paint Brush Hills Metropolitan District
- Falcon Market Place
- State Bank Land
- Eastonville and Judge Orr Property
- Falcon Fields

Bent Grass Metro District – 646 potential home sites with a projected revenue of approximately \$8,500,000 in tap fees plus user fee revenue. The developer has paid the District \$1,300,000. The developer is currently building Filing 2 of 178 homes.

Falcon Highlands Metropolitan District – 350 lots with sewer tap fee sales projected at \$1,925,000. Falcon Highlands Metro District has not solved their water supply issue and at the present time the water supply is inadequate to continue development.

Paint Brush Hills Metropolitan District – 473 home sites with projected tap fee sales of \$946,000 plus user fee revenue. In 2020 the District provided commitment letters for 117 taps. The Paint Brush area has the potential of selling 30 taps in 2021. The District receives only a sewer tap fee of \$2,000 dollars for each tap from this area.

Falcon Market Place brings a big box retail plus 10 commercial lots.

State Bank Land and Eastonville/Judge Orr property combined is about 75 acres for residential or commercial development.

Falcon Fields inclusion of 54.9 acres into Woodmen Hills Metropolitan District has been finalized. Projected SFE's are 233 with 104 being commercial.

With management's concerns with the changes listed above, there are some trepidations about rising construction costs in the existing economy. However, management believes the District has adequate reserves and revenues to execute the plan and successfully operate the maintenance budget. The improvement put forward in the 2016 Financial plan have been completed. The new improvements to accomplish compliance with new regulations will require an increase in the debt of the District. Operations and maintenance are adequately funded.

This financial report is designed to provide an overview of the Woodmen Hills Metropolitan District's finances for all interested parties. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Accounting Department, 8046 Eastonville Road, Falcon, Colorado 80831, (719) 495-2500.

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF NET POSITION DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,934,318	\$ 14,942,581
Accounts receivable	756,220	994,142
Prepaid expenses	14,583	21,916
Total current assets	<u>14,705,121</u>	<u>15,958,639</u>
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	1,846,205	1,899,716
Capital assets:		
Non-depreciable	9,608,210	20,134,879
Depreciable, net	50,383,916	37,452,020
Total non-current assets	<u>61,838,331</u>	<u>59,486,615</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding debt	<u>267,993</u>	<u>322,500</u>
TOTAL	<u>\$ 76,811,445</u>	<u>\$ 75,767,754</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 608,392	\$ 426,784
Interest payable	71,109	73,524
Capital leases payable, current portion	525,000	510,000
Bonds payable, current portion	555,000	540,000
Customer deposits	6,435	3,055
Total current liabilities	<u>1,765,936</u>	<u>1,553,363</u>
LONG-TERM LIABILITIES		
Capital leases payable, long-term portion	16,590,000	17,115,000
Bonds payable, long-term portion	13,235,000	13,790,000
Unearned revenue		213,000
Total long-term liabilities	<u>29,825,000</u>	<u>31,118,000</u>
Total liabilities	<u>31,590,936</u>	<u>32,671,363</u>
NET POSITION		
Net investment in capital assets	29,355,119	25,954,399
Restricted	167,876	139,524
Unrestricted net assets	15,697,514	17,002,468
Total net position	<u>45,220,509</u>	<u>43,096,391</u>
TOTAL	<u>\$ 76,811,445</u>	<u>\$ 75,767,754</u>

See notes to financial statements.

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING REVENUE		
Water and wastewater use fees	\$ 6,001,177	\$ 6,632,746
Parks and recreation fees	1,995,564	1,916,699
Other fees	<u>826,566</u>	<u>603,467</u>
Total operating revenue	<u>8,823,307</u>	<u>9,152,912</u>
OPERATING EXPENSES		
Depreciation	2,330,167	1,942,773
Wages and employee expenses	1,936,528	1,744,670
Operations	1,002,099	675,935
Repairs and maintenance	652,847	654,463
General and administrative	386,625	347,542
Utilities	<u>360,689</u>	<u>310,356</u>
Total operating expenses	<u>6,668,955</u>	<u>5,675,739</u>
OPERATING INCOME	<u>2,154,352</u>	<u>3,477,173</u>
NON-OPERATING REVENUE (EXPENSES)		
Interest expense	(939,345)	(962,598)
Tap fees	858,000	528,658
Interest income	<u>51,111</u>	<u>103,517</u>
Total non-operating expense, net	<u>(30,234)</u>	<u>(330,423)</u>
Change in net position	2,124,118	3,146,750
NET POSITION, Beginning of year	<u>43,096,391</u>	<u>39,949,641</u>
NET POSITION, End of year	<u>\$ 45,220,509</u>	<u>\$ 43,096,391</u>

See notes to financial statements.

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 8,873,525	\$ 9,286,665
Cash payments for goods and services	(2,263,877)	(2,473,002)
Cash payments to employees for services	<u>(1,907,886)</u>	<u>(1,747,738)</u>
Net cash provided by operating activities	<u>4,701,762</u>	<u>5,065,925</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bonds and capital lease obligations	(1,050,000)	(1,020,000)
Interest paid on bonds and capital lease obligations	(887,253)	(910,437)
Tap fees collected	858,000	528,658
Acquisition of capital assets	<u>(4,735,394)</u>	<u>(2,180,267)</u>
Net cash used in capital and related financing activities	<u>(5,814,647)</u>	<u>(3,582,046)</u>
INVESTING ACTIVITIES		
Cash provided by investing activities — interest income	<u>51,111</u>	<u>103,517</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,061,774)	1,587,396
CASH AND CASH EQUIVALENTS, Beginning of year	<u>16,842,297</u>	<u>15,254,901</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 15,780,523</u>	<u>\$ 16,842,297</u>
RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and cash equivalents	\$ 13,934,318	\$ 14,942,581
Cash and cash equivalents — restricted	<u>1,846,205</u>	<u>1,899,716</u>
Total	<u>\$ 15,780,523</u>	<u>\$ 16,842,297</u>

(Continued)

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,154,352	\$ 3,477,173
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,330,167	1,942,773
Changes in operating assets and liabilities:		
Accounts receivable	259,838	134,898
Prepaid expenses	(14,583)	(21,916)
Accounts payable and accrued expenses	181,608	(465,858)
Customer deposits	3,380	(1,145)
Unearned revenue	(213,000)	_____
Net cash provided by operating activities	<u>\$ 4,701,762</u>	<u>\$ 5,065,925</u>
NON-CASH TRANSACTIONS		
Amortization of deferred charge as interest expense	<u>\$ 54,507</u>	<u>\$ 54,507</u>

(Concluded)

See notes to financial statements.

WOODMEN HILLS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Woodmen Hills Metropolitan District (the District) is an independent governmental entity operating within El Paso County, Colorado. The following is a summary of the more significant policies consistently applied in the preparation of the District's financial statements.

Reporting Entity — The District was organized in November 1995 and is governed by a Board of Directors that is selected by an election of landowners within the District's legal boundaries. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District was organized to provide water and wastewater services to the property within its boundaries and to construct and maintain roads, bridges and park and recreation facilities including open space and trails on the property. The District has no component units as defined by the Governmental Accounting Standards Board (GASB).

Basis of Accounting — The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of GASB. The financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise; (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Net Position — The District's net position is classified in the following three components:

- Net investment in capital assets — This component consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted — This component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets are assets which have restrictions placed on the use of the assets through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in

the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Unrestricted — This component consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Budgets — Budgets are prepared in accordance with the requirements of Colorado Revised Statutes – (29-1-103) and, accordingly, include anticipated income and other means of financing proposed expenditures. Expenditures also include, in addition to those shown in the operating statements, debt redemptions and capital expenditures.

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. Budgets are required by state law for all funds. During September, the proposed budget is submitted to the Board of Directors by the budget officer for the fiscal year commencing the following January 1. The budget includes proposed expenditures and means of financing them.
- B. Public hearings are conducted by the Directors to obtain rate payers comments.
- C. Prior to December 31, the budget is adopted and appropriations made by formal resolution.
- D. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund or changes in project or department budgets. Budget amounts included in the financial statements are based on the final, legally amended budget.
- E. Budget appropriations lapse at the end of each year.

Accordingly, budget comparisons are of the legally adopted budget. The level of budget control is determined by the resolution appropriating sums of monies. Encumbrances are neither recorded on the books of the District nor included in the budget. The Board of Directors has the authority to make budget amendments.

Operating Revenue and Expenses — The District distinguishes between operating revenues and expenses and non-operating items in the statement of revenues, expenses and changes in fund net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sewer services to its customers. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of service, administrative expenses and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents — Demand deposits, money market accounts and cash on hand are deemed to be cash equivalents for the purpose of the statement of cash flows.

Accounts Receivable — Accounts receivable are stated at the invoiced amount. The District performs periodic credit evaluations based on its customers' payment history. Management has determined accounts receivable are collectible and no allowance for doubtful accounts is deemed necessary.

Capital Assets — All development costs in excess of \$5,000 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. Capital assets are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from three to forty years.

Deferred Inflows/Outflows of Resources — In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the life of the refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no item of this nature.

Use of Estimates — The preparation of 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 the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. DEPOSITS

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

uninsured deposits. The State Regulatory 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.

Federal Deposit Insurance Corporation (FDIC) coverage for government accounts is \$250,000 per official custodian.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2020 and 2019, the District's deposits were not exposed to custodial credit risk, as all deposits were insured by FDIC or collateralized in accordance with PDPA.

At December 31, 2020 and 2019, the District's deposits had a bank balance of \$15,983,451 and \$16,978,638, respectively, of which \$3,492,876 and \$3,460,778, respectively, was covered by federal depository insurance. The remainder of the bank balance of \$12,490,575 and \$13,517,860 at December 31, 2020 and 2019, respectively, was collateralized with securities held by the pledging financial institutions and covered by eligible collateral as determined by PDPA.

Restricted Cash — The District had restricted cash totaling \$1,846,205 and \$1,899,716 as of December 31, 2020 and 2019. As of December 31, 2020, \$1,678,329 was restricted for bonds and \$167,876 was restricted for lottery funds. As of December 31, 2019, \$1,760,192 was restricted for bonds and \$139,524 was restricted for lottery funds.

3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2020 and 2019 is as follows:

	Balance at January 1, 2020	Increase	Decrease	Balance at December 31, 2020
Capital assets not being depreciated:				
Water rights	\$ 4,206,085			\$ 4,206,085
Land	676,901			676,901
Work in progress	<u>15,251,893</u>	<u>\$ 4,559,849</u>	<u>\$ 15,086,518</u>	<u>4,725,224</u>
Total capital assets not being depreciated	<u>20,134,879</u>	<u>4,559,849</u>	<u>15,086,518</u>	<u>9,608,210</u>
Capital assets being depreciated:				
Recreational facilities	4,872,747	109,881		4,982,628
Water and wastewater infrastructure	61,659,687	15,120,798		76,780,485
Vehicles and equipment	<u>873,600</u>	<u>31,384</u>		<u>904,984</u>
Total capital assets being depreciated	<u>67,406,034</u>	<u>15,262,063</u>	<u>—</u>	<u>82,668,097</u>

Less accumulated depreciation for:				
Recreational facilities	3,875,176	200,704		4,075,880
Water and wastewater infrastructure	25,205,468	2,036,782		27,242,250
Vehicles and equipment	<u>873,370</u>	<u>92,681</u>		<u>966,051</u>
Total accumulated depreciation	<u>29,954,014</u>	<u>2,330,167</u>	<u>—</u>	<u>32,284,181</u>
Total capital assets being depreciated, net	<u>37,452,020</u>	<u>12,931,896</u>	<u>—</u>	<u>50,383,916</u>
Total capital assets, net	<u>\$ 57,586,899</u>	<u>\$ 17,491,745</u>	<u>\$ 15,086,518</u>	<u>\$ 59,992,126</u>
	Balance at January 1, 2019	Increase	Decrease	Balance at December 31, 2019
Capital assets not being depreciated:				
Water rights	\$ 4,206,085			\$ 4,206,085
Land	676,901			676,901
Work in progress	<u>13,253,431</u>	<u>\$ 1,998,462</u>		<u>15,251,893</u>
Total capital assets not being depreciated	<u>18,136,417</u>	<u>1,998,462</u>	<u>\$ —</u>	<u>20,134,879</u>
Capital assets being depreciated:				
Recreational facilities	4,776,866	95,881		4,872,747
Water and wastewater infrastructure	61,579,351	80,336		61,659,687
Vehicles and equipment	<u>868,012</u>	<u>5,588</u>		<u>873,600</u>
Total capital assets being depreciated	<u>67,224,229</u>	<u>181,805</u>	<u>—</u>	<u>67,406,034</u>
Less accumulated depreciation for:				
Recreational facilities	3,676,779	198,397		3,875,176
Water and wastewater infrastructure	23,546,489	1,658,979		25,205,468
Vehicles and equipment	<u>787,973</u>	<u>85,397</u>		<u>873,370</u>
Total accumulated depreciation	<u>28,011,241</u>	<u>1,942,773</u>	<u>—</u>	<u>29,954,014</u>
Total capital assets being depreciated, net	<u>39,212,988</u>	<u>(1,760,968)</u>	<u>—</u>	<u>37,452,020</u>
Total capital assets, net	<u>\$ 57,349,405</u>	<u>\$ 237,494</u>	<u>\$ —</u>	<u>\$ 57,586,899</u>

The District has incurred depreciation expense of \$2,330,167 and \$1,942,773 for the years ended December 31, 2020 and 2019, respectively.

4. LONG-TERM DEBT

Long-term debt consists of revenue bonds and capital lease agreements. A summary of changes in long-term debt is as follows:

	Balance at January 1, 2020	Increase	Decrease	Balance at December 31, 2020	Amounts Due Within One Year
Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016	\$ 14,330,000		\$ 540,000	\$ 13,790,000	\$ 555,000
Lease purchase agreement, 2016	<u>17,625,000</u>		<u>510,000</u>	<u>17,115,000</u>	<u>525,000</u>
	<u>\$ 31,955,000</u>	<u>\$ —</u>	<u>\$ 1,050,000</u>	<u>\$ 30,905,000</u>	<u>\$ 1,080,000</u>
	Balance at January 1, 2019	Increase	Decrease	Balance at December 31, 2019	Amounts Due Within One Year
Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016	\$ 14,855,000		\$ 525,000	\$ 14,330,000	\$ 540,000
Lease purchase agreement, 2016	<u>18,120,000</u>		<u>495,000</u>	<u>17,625,000</u>	<u>510,000</u>
	<u>\$ 32,975,000</u>	<u>\$ —</u>	<u>\$ 1,020,000</u>	<u>\$ 31,955,000</u>	<u>\$ 1,050,000</u>

Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016 — On March 29, 2016 the District issued Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016 (Series 2016 Bonds), with an original par value of \$16,200,000. The Series 2016 Bonds were issued to refund the Series 2009 Water and Wastewater Bonds and the Series 2009 Recreational Facilities Enterprise Revenue Refunding Bonds. The Series 2016 Bonds bear interest at a fixed rate of 2.75% through December 1, 2025, which is the Tender Date of the bonds. All principal and interest is due on the Tender Date unless the District elects to waive the full payment of the bonds on that date. If the District waives the payment of the bonds on the Tender Date then the bonds will continue to accrue interest at a rate of 8% through the final maturity date of December 1, 2044.

All, but not less than all, of the Series 2016 Bonds may be redeemed prior to maturity, at the option of the District on any date upon payment of the following redemption price:

Optional Redemption Date	Redemption Price
June 1, 2016 through November 30, 2019	103 %
December 1, 2019 through November 30, 2021	102 %
December 1, 2021 through November 30, 2022	101 %
December 1, 2022 and thereafter	100 %

The District may, from new tap fees and subject to the bond agreement, partially redeem the bonds on an annual basis up to \$1,000,000 on any interest payment date.

The following schedule of mandatory sinking fund requirements assumes the District will not redeem all of the bonds at the Tender Date of December 1, 2025.

	Series 2016 Bonds		
	Principal	Interest	Total
2021	\$ 555,000	\$ 379,225	\$ 934,225
2022	570,000	363,963	933,963
2023	585,000	348,288	933,288
2024	605,000	332,200	937,200
2025	620,000	315,563	935,563
2026 – 2030	1,535,000	4,115,199	5,650,199
2031 – 2035	2,260,000	3,394,400	5,654,400
2036 – 2040	3,320,000	2,334,000	5,654,000
2041 – 2044	<u>3,740,000</u>	<u>776,800</u>	<u>4,516,800</u>
Total	<u>\$ 13,790,000</u>	<u>\$ 12,359,638</u>	<u>\$ 26,149,638</u>

Lease Purchase Agreement 2016 — On March 29, 2016 the District entered into a Lease Purchase Agreement (2016 Lease) with the Woodmen Hills Public Facilities Leasing Trust 2016 (the Trust) to replace, in its entirety, the 2009 lease and to construct additional wastewater facilities (2016 Facilities) within the District. The lease term can be continued, solely at the option of the District, at annual renewal terms which terminate on December 1, 2044. The 2016 Lease is a special, limited obligation of the District's Water and Wastewater Enterprise payable solely from pledged revenue. Pledged revenue consists of money that the District has elected to appropriate for payment on the lease on an annual basis. The initial funding for the lease is \$19,215,000. Of this amount approximately \$6,400,000 is being used to repay the 2009 Lease, \$1,500,000 is being deposited in a debt service reserve fund, \$11,200,000 is for the Project Fund to construct the 2016 Facilities and \$500,000 will be used to pay the cost of the new lease. The difference will be paid with current District cash funds. The lease allows up to three years for the completion of the construction of the 2016 Facilities.

The District may, from new tap fees and subject to the bond and lease agreement, partially prepay the lease on an annual basis up to \$1,000,000 on any interest payment date. The District is further limited to a combined, 2016 Bond and 2016 Lease, prepayment totaling \$1,000,000.

Base rental payments are payable monthly during each renewal term and consist of a principal component and interest component. The initial interest rate is a fixed rate of 2.77% through December 1, 2025, which is the Tender Date of the 2016 Lease. All principal and interest is due on the Tender Date unless the District elects to waive the full payment of the bonds on that date. If the District waives the payment of the remaining principal and outstanding interest on the Tender Date then the 2016 Lease will accrue interest at a rate of 12% through the final maturity date of December 1, 2044.

The following schedule of base rental payments on the lease assumes the District will not pay the full principal at December 1, 2025.

	2016 Lease		
	Principal	Interest	Total
2021	\$ 525,000	\$ 474,086	\$ 999,086
2022	535,000	459,543	994,543
2023	555,000	444,724	999,724
2024	570,000	429,350	999,350
2025	585,000	413,561	998,561
2026 – 2030	1,440,000	8,300,398	9,740,398
2031 – 2035	2,530,000	7,203,600	9,733,600
2036 – 2040	4,460,000	5,274,600	9,734,600
2041 – 2044	<u>5,915,000</u>	<u>1,874,400</u>	<u>7,789,400</u>
Total	<u>\$ 17,115,000</u>	<u>\$ 24,874,262</u>	<u>\$ 41,989,262</u>

The capital lease obligations do not constitute a general obligation or other indebtedness of the District within the meaning of any constitutional, statutory or charter debt limitation. The District's obligation to make payments relating to the leases is contingent each year upon the District's appropriating the requisite funds. In the event of non-appropriation, the leases terminate, and the leases are payable solely from proceeds, if any, received from the Trustee upon exercise of remedies.

5. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past three years.

The District carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. There were no claims resulting from these risks that exceeded commercial insurance coverage during recent years.

6. RESTRICTED NET POSITION

Restricted net position of \$167,876 and \$139,524 as of December 31, 2020 and 2019, respectively consists of assets restricted for Parks and Recreation.

7. AMENDMENT TO COLORADO CONSTITUTION

In November 1992, the voters of Colorado approved Amendment I, commonly known as the Taxpayer Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax spending, revenue and debt limitation that apply to the State of Colorado and all local governments. The District's financial activity for 1992 provides the basis for calculation of future limitations adjusted for allowable increases tied to inflation and local growth.

TABOR excludes enterprise governments from its provisions. Enterprise governments, defined as governmental-owned businesses that are authorized to issue revenue bonds and receive less than 10% of their annual revenue in grants from all state and local governments combined are excluded from the provisions of TABOR. The District is of the opinion that the enterprise operations qualify for the parks and recreation and water and wastewater system exclusion. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations in the amendment's language to determine its compliance.

8. EMPLOYEE BENEFIT PLAN

The District offers a Section 457 deferred compensation plan for which employees are eligible after a year of employment. The District contributes 3% of the employee's salary for the calendar year, and makes matching contributions up to an additional 1.5% of the employee's salary reduction contributions. All contributions made under the plan are fully vested and nonrefundable. The Company contributed \$28,786 and \$20,182 to the plan for the years ended December 31, 2020 and 2019, respectively.

9. COMMITMENTS, CONTINGENCIES AND RISKS

The District has been operating under a cease and desist order from Colorado Department of Public Health and Environment (CDPHE) because the current wastewater treatment system has been determined to be insufficient to provide treatment during the spring season. The District is cooperating fully with all of the CDPHE inquiries and is seeking a long-term solution to the wastewater needs, possibly in cooperation with neighboring water and wastewater districts. On March 10, 2015, CDPHE issued a Compliance Order on Consent to the District (Compliance Order). Among other requirements under the Compliance Order, the District is required to maintain compliance with the Water Quality Control Act (the Act), implement and continually optimize a BioShell pilot study, provide various updates and progress reports to CDPHE, and obtain funding for and complete construction of facilities or other appropriate action to comply with the Act by October 31, 2018. As of December 31, 2020 management of the District believes the District was in compliance with the Act.

During the year ended December 31, 2015 the District entered into an agreement with another district (Adjoining District) to expand the District's facilities and to provide wastewater treatment to a maximum of 500 single family equivalents to the Adjoining District. The District committed to expand their facilities to support the added development. Construction of the new plant was awarded on May 25, 2017, the ground breaking occurred on June 30, 2017 and the project was completed in 2019. The Adjoining District is expected to pay the District \$1,500,000 for its proportionate share of the project. The Adjoining District has made an initial payment of \$213,000, which is recorded as unearned revenue in the Statement of Net Position as of December 31, 2019. During the year ended December 31, 2020 the District terminated this agreement and recognized the \$213,000 in operating revenue on the statement of revenues, expenses and changes in net position.

WOODMEN HILLS METROPOLITAN DISTRICT

SUPPLEMENTAL SCHEDULE

WOODMEN HILLS METROPOLITAN DISTRICT

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION — BUDGET (NON - GAAP) AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2020

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget (Unfavorable)
REVENUE			
Water and wastewater use fees	\$ 5,964,247	\$ 6,001,177	\$ 36,930
Parks and recreation use fees	2,244,046	1,995,564	(248,482)
Other fees	376,882	826,566	449,684
Tap fees	565,000	858,000	293,000
Interest income		51,111	51,111
Total revenue	<u>9,150,175</u>	<u>9,732,418</u>	<u>582,243</u>
EXPENDITURES			
Capital expenditures	6,926,004	4,735,394	2,190,610
Wages and employee expenses	2,170,970	1,936,528	234,442
Debt service	2,050,591	1,989,345	61,246
Operations	1,379,311	1,002,099	377,212
Repairs and maintenance	869,308	652,847	216,461
General and administrative	837,188	386,625	450,563
Utilities	795,200	360,689	434,511
Total expenditures	<u>15,028,572</u>	<u>11,063,527</u>	<u>3,965,045</u>
EXCESS OF REVENUE OVER EXPENDITURES	(5,878,397)	(1,331,109)	4,547,288
FUNDS AVAILABLE - Beginning of year	<u>43,096,391</u>	<u>43,096,391</u>	
FUNDS AVAILABLE - End of year	<u>\$ 37,217,994</u>	41,765,282	<u>\$ 4,547,288</u>
RECONCILIATION OF REVENUE AND EXPENSE - GAAP BASIS TO BUDGETARY BASIS			
Capital expenditures		4,735,394	
Debt service		1,989,345	
Interest expense		(939,345)	
Depreciation and amortization		<u>(2,330,167)</u>	
NET POSITION - GAAP BASIS		<u>\$ 45,220,509</u>	