



WOODMEN HILLS METROPOLITAN DISTRICT

Management's Discussion and Analysis,

Financial Statements,

And Supplemental Information

For the Years Ended December 31, 2021 and 2020

And

Independent Auditors' Report

WOODMEN HILLS METROPOLITAN DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Woodmen Hills Metropolitan District

Opinion

We have audited the accompanying financial statements of Woodmen Hills Metropolitan District (the District) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 4 through 7 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

July 12, 2022

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 12 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:

	2021	2020	2019
ASSETS			
Current assets	\$ 15,626,100	\$ 14,705,121	\$ 15,958,639
Cash and cash equivalents, restricted	1,868,967	1,846,205	1,899,716
Capital assets	<u>60,160,619</u>	<u>59,992,126</u>	<u>57,586,899</u>
Total assets	<u>77,655,686</u>	<u>76,543,452</u>	<u>75,445,254</u>
DEFERRED OUTFLOWS	<u>213,485</u>	<u>267,993</u>	<u>322,500</u>

	2021	2020	2019
LIABILITIES			
Current liabilities	2,057,974	1,765,936	1,553,363
Capital lease payables, long-term	16,055,000	16,590,000	17,115,000
Bond payables, long-term	12,665,000	13,235,000	13,790,000
Unearned revenues	<u> </u>	<u> </u>	<u>213,000</u>
Total liabilities	<u>30,777,974</u>	<u>31,590,936</u>	<u>32,671,363</u>
NET POSITION			
Net investment in capital assets	30,549,104	29,355,119	25,954,399
Restricted	191,467	167,876	139,524
Unrestricted	<u>16,350,626</u>	<u>15,697,514</u>	<u>17,002,468</u>
Total net position	<u>\$ 47,091,197</u>	<u>\$ 45,220,509</u>	<u>\$ 43,096,391</u>

The District's current assets increased by \$920,979 due to an increase in cash and cash equivalents available for current operations.

The District's total capital assets increased by \$168,493 as of December 31, 2021 due to purchases of capital assets exceeding depreciation expense in 2021. The District did not receive any capital contributions in 2021.

The District's restricted cash and cash equivalents increased by \$22,762 due to restricted monies to be used for bond payments.

Current liabilities increased by \$292,038 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 \$47,091,197 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:

	2021	2020	2019
OPERATING REVENUE			
Water and wastewater service fees	\$ 6,319,780	\$ 6,001,177	\$ 6,632,746
Park and recreation service fees	<u>2,138,637</u>	<u>1,995,564</u>	<u>1,916,699</u>
Total operating fees	8,458,417	7,996,741	8,549,445
Other fees	<u>621,589</u>	<u>826,566</u>	<u>603,467</u>
Total operating revenue	9,080,006	8,823,307	9,152,912
OPERATING EXPENSES	<u>7,762,633</u>	<u>6,668,955</u>	<u>5,675,739</u>
OPERATING INCOME	1,317,373	2,154,352	3,477,173

	2021	2020	2019
NON-OPERATING REVENUES (EXPENSES)	<u>553,315</u>	<u>(30,234)</u>	<u>(330,423)</u>
Change in net position	1,870,688	2,124,118	3,146,750
NET POSITION, Beginning of year	<u>45,220,509</u>	<u>43,096,391</u>	<u>39,949,641</u>
NET POSITION, End of year	<u>\$ 47,091,197</u>	<u>\$ 45,220,509</u>	<u>\$ 43,096,391</u>

Operating revenue increased by \$256,699 in 2021 due to an increase in water rates and number of customers.

There was operating income of \$1,317,373 in 2021 compared to \$2,154,352. 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 2021.

ADDITIONAL FINANCIAL INFORMATION

Growth in the Falcon/Peyton area continues to outpace projections. This growth has led to higher than anticipated revenues for the District over the last several years. Growth rate for the District is expected to remain above target throughout 2022 and possibly into quarter 1 of 2023.

Developmental areas that the District expects to continue to build out.

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

All these areas will generate significant revenue for the District in the form of monthly user fees as well as tap fees. The District is expecting tap fee revenue to top well over \$20 million over the next three to five years. Full buildout of all developmental areas is expected to take at least 10-15 years.

While the District has and will continue to see heightened growth, the District has also experienced a significant increase in expenses. There are various factors at play, but most notably is the cost of goods. Beginning in 2021, the price for goods, such as chemicals, has increased by +40%. On top of this price increase, many suppliers are also imposing a surcharge that brings the cost to +45%. Add on top the rate of inflation, the need arises to begin to consider raising monthly user rates. A new rate study will be conducted in 2022 to determine the best course of action for the District in the years to come. While the District is fiscally sound, it is imperative that the District maintain that strong financial position as it heads closer to becoming a maintenance District.

To maintain the District's strong financial position, during the year ended 2022, the District refinanced its 2016 Revenue Bond and 2016 COP Lease. The District wanted to take advantage of historic low interest rates which would save the District debt service payments over the life of the bond/COP lease. This effort was completed in quarter 1 of 2022 and ultimately led to a cost savings of approximately \$35 million in additional interest payments. The District plans to utilize these cost savings and re-invest in various capital improvements around the District.

Over the coming years, the District's goal is to remain financially stable while providing world-class utilities and recreational amenities to its residents. The District's focus has and will forever be on being a "recreational lifestyle community".

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, 2021 AND 2020

	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,869,792	\$ 13,934,318
Accounts receivable	735,005	756,220
Prepaid expenses	<u>21,303</u>	<u>14,583</u>
Total current assets	<u>15,626,100</u>	<u>14,705,121</u>
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	1,868,967	1,846,205
Capital assets:		
Non-depreciable	12,305,843	9,608,210
Depreciable, net	<u>47,854,776</u>	<u>50,383,916</u>
Total non-current assets	<u>62,029,586</u>	<u>61,838,331</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding debt	<u>213,485</u>	<u>267,993</u>
TOTAL	<u>\$ 77,869,171</u>	<u>\$ 76,811,445</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 872,574	\$ 608,392
Interest payable	71,400	71,109
Capital leases payable, current portion	535,000	525,000
Bonds payable, current portion	570,000	555,000
Customer deposits	<u>9,000</u>	<u>6,435</u>
Total current liabilities	<u>2,057,974</u>	<u>1,765,936</u>
LONG-TERM LIABILITIES		
Capital leases payable, long-term portion	16,055,000	16,590,000
Bonds payable, long-term portion	<u>12,665,000</u>	<u>13,235,000</u>
Total long-term liabilities	<u>28,720,000</u>	<u>29,825,000</u>
Total liabilities	<u>30,777,974</u>	<u>31,590,936</u>
NET POSITION		
Net investment in capital assets	30,549,104	29,355,119
Restricted	191,467	167,876
Unrestricted net assets	<u>16,350,626</u>	<u>15,697,514</u>
Total net position	<u>47,091,197</u>	<u>45,220,509</u>
TOTAL	<u>\$ 77,869,171</u>	<u>\$ 76,811,445</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, 2021 AND 2020

	2021	2020
OPERATING REVENUE		
Water and wastewater use fees	\$ 6,319,780	\$ 6,001,177
Parks and recreation fees	2,138,637	1,995,564
Other fees	<u>621,589</u>	<u>826,566</u>
Total operating revenue	<u>9,080,006</u>	<u>8,823,307</u>
OPERATING EXPENSES		
Depreciation	2,330,167	2,330,167
Wages and employee expenses	2,089,365	1,936,528
Operations	1,201,200	1,002,099
Repairs and maintenance	1,194,498	652,847
General and administrative	485,717	386,625
Utilities	<u>461,686</u>	<u>360,689</u>
Total operating expenses	<u>7,762,633</u>	<u>6,668,955</u>
OPERATING INCOME	<u>1,317,373</u>	<u>2,154,352</u>
NON-OPERATING REVENUE (EXPENSES)		
Interest expense	(907,818)	(939,345)
Tap fees	1,408,990	858,000
Interest income	29,620	51,111
Gain on sale of capital assets	<u>22,523</u>	<u></u>
Total non-operating expense, net	<u>553,315</u>	<u>(30,234)</u>
Change in net position	1,870,688	2,124,118
NET POSITION, Beginning of year	<u>45,220,509</u>	<u>43,096,391</u>
NET POSITION, End of year	<u>\$ 47,091,197</u>	<u>\$ 45,220,509</u>

See notes to financial statements.

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 9,103,786	\$ 8,873,525
Cash payments for goods and services	(3,080,039)	(2,263,877)
Cash payments to employees for services	<u>(2,094,965)</u>	<u>(1,907,886)</u>
Net cash provided by operating activities	<u>3,928,782</u>	<u>4,701,762</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bonds and capital lease obligations	(1,080,000)	(1,050,000)
Interest paid on bonds and capital lease obligations	(853,019)	(887,253)
Tap fees collected	1,408,990	858,000
Proceeds from sale of capital assets	300,000	
Acquisition of capital assets	<u>(2,776,137)</u>	<u>(4,735,394)</u>
Net cash used in capital and related financing activities	<u>(3,000,166)</u>	<u>(5,814,647)</u>
INVESTING ACTIVITIES		
Cash provided by investing activities — interest income	<u>29,620</u>	<u>51,111</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	958,236	(1,061,774)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>15,780,523</u>	<u>16,842,297</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 16,738,759</u>	<u>\$ 15,780,523</u>
RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and cash equivalents	\$ 14,869,792	\$ 13,934,318
Cash and cash equivalents — restricted	<u>1,868,967</u>	<u>1,846,205</u>
Total	<u>\$ 16,738,759</u>	<u>\$ 15,780,523</u>

(Continued)

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,317,373	\$ 2,154,352
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,330,167	2,330,167
Changes in operating assets and liabilities:		
Accounts receivable	21,215	259,838
Prepaid expenses	(6,720)	(14,583)
Accounts payable and accrued expenses	264,182	181,608
Customer deposits	2,565	3,380
Unearned revenue	<u> </u>	<u>(213,000)</u>
Net cash provided by operating activities	<u>\$ 3,928,782</u>	<u>\$ 4,701,762</u>
 NON-CASH TRANSACTIONS		
Amortization of deferred charge as interest expense	<u>\$ 54,508</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, 2021 and 2020, 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, 2021 and 2020, the District's deposits had a bank balance of \$16,931,413 and \$15,983,451, respectively, of which \$3,516,479 and \$3,492,876, respectively, was covered by federal depository insurance. The remainder of the bank balance of \$13,414,934 and \$12,490,575 at December 31, 2021 and 2020, 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 \$1,868,967 and \$1,846,205 as of December 31, 2021 and 2020. As of December 31, 2021, \$1,677,500 was restricted for bonds and \$191,467 was restricted for lottery funds. As of December 31, 2020, \$1,678,329 was restricted for bonds and \$167,876 was restricted for lottery funds.

3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2021 and 2020 is as follows:

	Balance at January 1, 2021	Increase	Decrease	Balance at December 31, 2021
Capital assets not being depreciated:				
Water rights	\$ 4,206,085			\$ 4,206,085
Land	676,901			676,901
Work in progress	<u>4,725,224</u>	<u>\$ 2,697,633</u>		<u>7,422,857</u>
Total capital assets not being depreciated	<u>9,608,210</u>	<u>2,697,633</u>	<u>—</u>	<u>12,305,843</u>
Capital assets being depreciated:				
Recreational facilities	4,982,628	11,086		4,993,714
Water and wastewater infrastructure	76,780,485	5,820	481,003	76,305,302
Vehicles and equipment	<u>904,984</u>	<u>85,078</u>		<u>990,062</u>
Total capital assets being depreciated	<u>82,668,097</u>	<u>101,984</u>	<u>481,003</u>	<u>82,289,078</u>
Less accumulated depreciation for:				
Recreational facilities	4,075,880	200,704		4,276,584
Water and wastewater infrastructure	27,242,250	2,036,782	180,046	29,098,986
Vehicles and equipment	<u>966,051</u>	<u>92,681</u>		<u>1,058,732</u>
Total accumulated depreciation	<u>32,284,181</u>	<u>2,330,167</u>	<u>180,046</u>	<u>34,434,302</u>
Total capital assets being depreciated, net	<u>50,383,916</u>	<u>(2,228,183)</u>	<u>300,957</u>	<u>47,854,776</u>
Total capital assets, net	<u>\$ 59,992,126</u>	<u>\$ 469,450</u>	<u>\$ 300,957</u>	<u>\$ 60,160,619</u>

	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>

The District has incurred depreciation expense of \$2,330,167 for both of the years ended December 31, 2021 and 2020.

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, 2021	Increase	Decrease	Balance at December 31, 2021	Amounts Due Within One Year
Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2016	\$13,790,000		\$ 555,000	\$ 13,235,000	\$ 570,000
Lease purchase agreement, 2016	<u>17,115,000</u>		<u>525,000</u>	<u>16,590,000</u>	<u>535,000</u>
	<u>\$30,905,000</u>	<u>\$ —</u>	<u>\$ 1,080,000</u>	<u>\$ 29,825,000</u>	<u>\$ 1,105,000</u>
	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>

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
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	260,000	868,400	1,128,400
2027 – 2031	1,660,000	3,992,399	5,652,399
2032 – 2036	2,440,000	3,213,600	5,653,600
2037 – 2041	3,585,000	2,068,400	5,653,400
2042 – 2044	<u>2,910,000</u>	<u>477,600</u>	<u>3,387,600</u>
Total	<u>\$ 13,235,000</u>	<u>\$ 11,980,413</u>	<u>\$ 25,215,413</u>

In April 2022, the District amended the Series 2016 Bonds. The amended bonds, bear interest at a fixed rate of 2.75% through April 4, 2022, and a fixed rate of 2.94% through the final maturity date of December 1, 2041.

All, but not less than all, of the Amended 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, 2025	103 %
December 1, 2025 through November 30, 2026	102 %
December 1, 2026 through November 30, 2027	101 %
December 1, 2027 and thereafter	100 %

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 as Amended		
	Principal	Interest	Total
2022	\$ 500,000	\$ 256,163	\$ 756,163
2023	520,000	374,409	894,409
2024	535,000	359,121	894,121
2025	555,000	343,392	898,392
2026	575,000	327,075	902,075
2027 – 2031	3,135,000	1,371,804	4,506,804
2032 – 2036	3,555,000	886,116	4,441,116
2037 – 2041	<u>3,860,000</u>	<u>337,071</u>	<u>4,197,071</u>
Total	<u>\$ 13,235,000</u>	<u>\$ 4,255,151</u>	<u>\$ 17,490,151</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
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	225,000	1,721,400	1,946,400
2027 – 2031	1,615,000	8,127,598	9,742,598
2032 – 2036	2,835,000	6,900,000	9,735,000
2037 – 2041	4,995,000	4,739,400	9,734,400
2042 – 2044	<u>4,675,000</u>	<u>1,164,600</u>	<u>5,839,600</u>
Total	<u>\$ 16,590,000</u>	<u>\$ 24,400,176</u>	<u>\$ 40,990,176</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.

In April 2022, the District amended the 2016 Lease. The amended lease, bears interest at a fixed rate of 2.77% through April 4, 2022, and a fixed rate of 3.03% through the final maturity date of December 1, 2034.

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

	Series 2016 Lease as Amended		
	Principal	Interest	Total
2022	\$ 540,000	\$ 330,929	\$ 870,929
2023	560,000	486,315	1,046,315
2024	575,000	469,347	1,044,347
2025	590,000	451,925	1,041,925
2026	610,000	434,48	1,044,048
2027 – 2031	3,280,000	1,883,297	5,163,297
2032 – 2034	<u>10,435,000</u>	<u>884,154</u>	<u>11,319,154</u>
Total	<u>\$ 16,590,000</u>	<u>\$ 4,940,015</u>	<u>\$ 21,530,015</u>

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 \$191,467 and \$167,876 as of December 31, 2021 and 2020, 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 \$53,762 and \$28,786 to the plan for the years ended December 31, 2021 and 2020, 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, 2021 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 was 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, 2021

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget (Unfavorable)
REVENUE			
Water and wastewater use fees	\$ 6,080,902	\$ 6,319,780	\$ 238,878
Parks and recreation use fees	2,228,650	2,138,637	(90,013)
Other fees	266,549	621,589	355,040
Tap fees	525,000	1,408,990	883,990
Interest income		29,620	29,620
Other income		22,523	22,523
Total revenue	<u>9,101,101</u>	<u>10,541,139</u>	<u>1,440,038</u>
EXPENDITURES			
Capital expenditures	5,700,000	2,776,137	2,923,863
Wages and employee expenses	2,268,599	2,089,365	179,234
Debt service	2,312,915	1,987,818	325,097
Operations	1,720,540	1,201,200	519,340
Repairs and maintenance	940,396	1,194,498	(254,102)
General and administrative	751,296	485,717	265,579
Utilities	<u>905,000</u>	<u>461,686</u>	<u>443,314</u>
Total expenditures	<u>14,598,746</u>	<u>10,196,421</u>	<u>4,402,325</u>
REVENUE OVER (UNDER) EXPENDITURES	(5,497,645)	344,718	5,842,363
FUNDS AVAILABLE - Beginning of year	<u>45,220,509</u>	<u>45,220,509</u>	
FUNDS AVAILABLE - End of year	<u>\$ 39,722,864</u>	45,565,227	<u>\$ 5,842,363</u>
RECONCILIATION OF REVENUE AND EXPENSE - GAAP BASIS TO BUDGETARY BASIS			
Capital expenditures		2,776,137	
Debt service		1,987,818	
Interest expense		(907,818)	
Depreciation and amortization		<u>(2,330,167)</u>	
NET POSITION - GAAP BASIS		<u>\$ 47,091,197</u>	