

NEW ISSUE

NOT RATED

In the opinion of Becker Stowe & Bieber LLC, Bond Counsel, assuming compliance with certain covenants relating to the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and subject to certain exceptions referred to herein, under the statutes, regulations, rulings and judicial decisions existing on the date of the original delivery of the Series 2004 Bonds, interest paid by the District on the Series 2004 Bonds (i) is excludable from gross income of the recipients thereof for federal income tax purposes, (ii) is not a specific preference item for purposes of the federal alternative minimum tax for individuals and corporations, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income and (iii) is exempt from Colorado income tax. For a more detailed description of the tax status of the interest paid by the District on the Series 2004 Bonds, Bond Counsel's opinion and certain other tax consequences of owning the Series 2004 Bonds. See "TAX MATTERS" herein. See "FINANCIAL INSTITUTION INTEREST DEDUCTION." Developer Supplemental Payments made as described in "SECURITY FOR THE SERIES 2004 BONDS - Developer Supplemental Payments" and "TAX MATTERS" are not excludable from the gross income of the recipients thereof for federal or Colorado income tax purposes.

WOODMEN HILLS METROPOLITAN DISTRICT
El Paso County, Colorado
Acting By and Through Its Water and Wastewater Enterprise

\$12,710,000
Water and Wastewater Enterprise Refunding Revenue Bonds
Series 2004

Dated: Date of Delivery **Initial Interest Rate: 4.00%** **Price: 94%** **Due: December 1, 2024**
Maximum Interest Rate: 8.00%

The Series 2004 Bonds will be issued in fully registered and certificated form in denominations of \$1,000 and integral multiples thereof. Interest on the Series 2004 Bonds, initially at 4.00% per annum and thereafter increased as described herein, will be payable to the registered owners of the Series 2004 Bonds on each June 1 and December 1, commencing June 1, 2005. The Series 2004 Bonds are subject to redemption prior to maturity as described herein.

The proceeds of the Series 2004 Bonds will be used to refund the outstanding Prior Obligations.

The Series 2004 Bonds are special obligations of the Water and Wastewater Enterprise payable solely from and secured by the pledge of and an irrevocable lien on the Net Revenues to be derived by the Water and Wastewater Enterprise from the operation of its Water and Wastewater System, as described herein. The Series 2004 Bonds are not general obligations of the District and are not payable in whole or in part from ad valorem taxes or any other form of taxation.

THE PURCHASE AND OWNERSHIP OF THE SERIES 2004 BONDS INVOLVES SIGNIFICANT RISK AND MAY NOT BE A SUITABLE INVESTMENT FOR ALL PROSPECTIVE INVESTORS. This cover page is not a summary of the issue. Prospective investors should read this Private Placement Memorandum in its entirety, giving particular attention to the matters discussed in "RISK FACTORS" and "LIMITED OFFERING; INVESTOR SUITABILITY," in order to make an informed investment decision. No rating has been sought or obtained with respect to the Series 2004 Bonds.

The Series 2004 Bonds are offered and will be sold to a limited number of "accredited investors" within the meaning of Sections 3(b) and (4)(2) of the Securities Act of 1933, as amended, by regulation adopted thereunder by the U.S. Securities and Exchange Commission, as discussed in "LIMITED OFFERING; INVESTOR SUITABILITY."

The Series 2004 Bonds are offered when, as and if issued by the District, acting for the Water and Wastewater Facilities Enterprise, subject to the approval of validity and certain other matters by Becker Stowe & Bieber LLC, Denver, Colorado, as Bond Counsel, and certain other conditions. It is expected that the Series 2004 Bonds will be available for delivery in Denver, Colorado, on or about November 19, 2004.

Bathgate Capital Partners LLC
Placement Agent

This Private Placement Memorandum is dated November 19, 2004

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Private Placement Memorandum and the appendices hereto, and if given or made, such information or representations must not be relied upon as having been authorized by the District or the Placement Agent.

This Private Placement Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2004 Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District or the Placement Agent. The information and expressions of opinion set forth herein are subject to change without notice, and neither the delivery of this Private Placement Memorandum, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the information set forth herein since the date hereof.

The Series 2004 Bonds offered by this Private Placement Memorandum have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any states, and are being offered and sold in reliance on exemptions from the registration requirements of the Securities Act and such laws. The Series 2004 Bonds are offered only to a limited number of "accredited investors" within the meaning of Sections 3(b) and (4)(2) of the Securities Act, by regulation adopted thereunder. The Series 2004 Bonds may be transferred or resold only to other such accredited investors and only if the Series 2004 Bonds are registered under the Securities Act and such laws or an exemption from registration is available. Prospective investors should be aware that there is no public market for the Series 2004 Bonds, and no public market is expected to develop. Thus, prospective investors will be required to bear the financial risks of this investment for an indefinite period of time.

This Private Placement Memorandum is submitted to prospective investors on a confidential basis for use solely in connection with a private offering of the Series 2004 Bonds. The disclosure of any of the data contained herein or supplied in connection herewith or the use thereof for any other purpose is prohibited. This Private Placement Memorandum may not be reproduced, in whole or in part, and it is accepted with the understanding that it will be returned on request if the recipient does not purchase the Series 2004 Bonds offered hereby.

Prospective investors are not to construe the contents of this Private Placement Memorandum as legal, investment or tax advice. Prospective investors should consult their advisors as to legal, investment, tax and related matters concerning an investment by such prospective investors in the Series 2004 Bonds.

The Series 2004 Bonds have not been approved or disapproved by the Securities and Exchange Commission, any state securities commission or any other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Private Placement Memorandum. Any representation to the contrary is unlawful.

Neither the Securities and Exchange Commission nor the securities regulatory authority of any state has approved or disapproved the Series 2004 Bonds or this Private Placement Memorandum. Any representation to the contrary is unlawful.

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CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

WOODMEN HILLS METROPOLITAN DISTRICT
El Paso County, Colorado
Acting by and Through its Water and Wastewater Enterprise

\$12,710,000
Water and Wastewater Enterprise Refunding
Revenue Bonds, Series 2004

INTRODUCTION

This Private Placement Memorandum, including the cover page and appendices, is furnished in connection with the issuance and sale by the Woodmen Hills Metropolitan District, El Paso County, Colorado (the "District"), acting by and through its Water and Wastewater Enterprise (the "Water and Wastewater Enterprise" or the "Enterprise"), of its Water and Wastewater Enterprise Refunding Revenue Bonds, Series 2004, in the aggregate principal amount of \$12,710,000 (the "Series 2004 Bonds"). *As used in this Private Placement Memorandum, references to the District shall mean the District acting by and through the Water and Wastewater Enterprise, unless the context indicates otherwise.*

The District and the Water and Wastewater Enterprise. The District is a quasi-municipal corporation and a political subdivision of the State of Colorado (the "State") located approximately seven miles east/northeast of the developed portions of the City of Colorado Springs in unincorporated El Paso County (the "County"), and generally encompasses the Woodmen Hills mixed-use development being developed by Falcon Properties and Investments, LLP ("Falcon Properties" or the "Developer"). By resolution (the "Enterprise Resolution") adopted by the Board of Directors of the District (the "District Board") in November 2002, the District's Water and Wastewater Enterprise, consisting of the District's water facilities and properties (the "Water System") and wastewater facilities and properties (the "Wastewater System" and together with the Water System, the "Systems"), was recognized and confirmed as an "enterprise" of the District for purposes of Article X, Section 20 of the Colorado Constitution, commonly known as the "Taxpayer's Bill of Rights" or "TABOR." The District Board serves as the governing body of the Water and Wastewater Enterprise. See "THE DISTRICT," "THE WATER AND WASTEWATER ENTERPRISE" and "THE WOODMEN HILLS DEVELOPMENT."

The Series 2004 Bonds. The Series 2004 Bonds are issued in fully registered and certificated form in denominations of \$1,000 and integral multiples thereof. Interest on the Series 2004 Bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2005, and mature on December 1, 2024, subject to redemption prior to maturity as described herein. The initial Interest Rate on the Series 2004 Bonds shall be four percent (4.00%) per annum and thereafter increased as described in "DESCRIPTION OF THE SERIES 2004 BONDS - General Description." Notwithstanding anything herein to the contrary, the Interest Rate shall never exceed eight (8.00%) per annum. The Series 2004 Bonds are issued under authority of the constitution and laws of the State and pursuant to an authorizing resolution (the "Series 2004 Bond Resolution") adopted by the District Board acting in its capacity as the governing body of the Water and Wastewater Facilities Enterprise. See "SECURITY FOR THE SERIES 2004 BONDS."

The Series 2004 Bonds are special obligations of the District's Water and Wastewater Enterprise which, together with the interest thereon, are payable solely out of the "2004 Refunding Revenue Bonds Bond Payment Account" (the "Bond Payment Account"). The Water and Wastewater Enterprise has covenanted to (i) deposit into the Enterprise's "Water and Wastewater Enterprise Revenue Fund" (the "Revenue Fund") the Gross Revenues of the Systems (consisting generally of the revenues derived by the Water and Wastewater Enterprise from certain rates, fees, tolls and charges for the use of the Systems) and, after payment of all reasonable and necessary expenses of operating, maintaining and repairing the Systems, then among other transfers, (ii) transfer from the Revenue Fund to the Bond Payment Account amounts sufficient to pay when due the principal of and interest on the Series 2004 Bonds. The Series 2004 Bonds are not general obligations of the District and are not payable in whole or in part from ad valorem taxes or any other form of taxation. See "SECURITY FOR THE SERIES 2004 BONDS" and "THE WATER AND WASTEWATER ENTERPRISE."

Use of Proceeds. The proceeds of the Series 2004 Bonds will be used to refund the outstanding 2002A Water and Wastewater Facilities Enterprise Refunding Revenue Bonds currently outstanding in the amount of \$12,310,000 (the "Prior Obligations") and the cost of issuance of the Series 2004 Bonds. See "APPLICATION OF PROCEEDS OF THE SERIES 2004 BONDS."

Limited Offering. *The Series 2004 Bonds are offered and will be sold only to a limited number of "accredited investors" within the meaning of Sections 3(b) and (4)(2) of the Securities Act of 1933, as amended (the "Securities Act"), by regulation adopted thereunder by the U.S. Securities and Exchange Commission (the "SEC"). It is expected that prospective investors will conduct independent investigations of the legal and financial aspects of the Series 2004 Bonds to determine whether an investment in the Series 2004 Bonds is consistent with their investment objectives. See "LIMITED OFFERING; INVESTOR SUITABILITY."*

Bondholders' Risks. **THE PURCHASE AND OWNERSHIP OF THE SERIES 2004 BONDS INVOLVES SIGNIFICANT RISK AND MAY NOT BE A SUITABLE INVESTMENT FOR ALL PROSPECTIVE INVESTORS. Prospective investors should read this Private Placement Memorandum in its entirety, giving particular attention to the matters discussed in "RISK FACTORS" and "LIMITED OFFERING; INVESTOR SUITABILITY," in order to make an informed investment decision.**

Tax Treatment of Interest on the Series 2004 Bonds. In the opinion of Becker Stowe & Bieber LLC, Bond Counsel, assuming compliance with certain covenants relating to the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and subject to certain exceptions referred to herein, under the statutes, regulations, rulings and judicial decisions existing on the date of the original delivery of the Series 2004 Bonds, interest on the Series 2004 Bonds (i) is excludable from gross income of the recipients thereof for federal income tax purposes, (ii) is not a specific preference item for purposes of the federal alternative minimum tax for individuals and corporations, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income and (iii) is exempt from Colorado income tax pursuant to Colorado Revised Statutes 32-1-1101(d). For a more detailed description of the tax status of the interest on the Series 2004 Bonds, Bond Counsel's opinion and certain other tax consequences of owning the Series 2004 Bonds, See "TAX MATTERS" herein. The Series 2004 Bonds have been designated by the District as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "FINANCIAL INSTITUTION INTEREST DEDUCTION."

Professional Services. The professional firms participating in this issue are as follows:

Placement Agent:	Bathgate Capital Partners 5350 South Roslyn Street, Suite 400 Greenwood Village, Colorado 80111 Telephone: (720) 482-7460
Paying Agent and Registrar:	American National Bank 3033 East First Avenue Denver, Colorado 80206-5698 Telephone: (303) 394-5100
Bond Counsel:	Becker Stowe & Bieber LLC 1120 Lincoln Street, Suite 1002 Denver, Colorado 80203-2138 Telephone: (303) 830-0101
Counsel to the District:	Susemihl, McDermott & Cowan, P.C. 660 Southpointe Court, Suite 210 Colorado Springs, Colorado 80906 Telephone: (719) 579-6500
Independent Auditor:	Jaspers + Hall P.C. 2997 Broadmoor Valley Road Colorado Springs, Colorado 80906 Telephone: (719) 596-0970

Additional Information. Brief descriptions of the Series 2004 Bonds, the Series 2004 Bond Resolution and the District are included herein. The summaries of the documents contained herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, and all references to the Series 2004 Bonds are qualified in their entirety by the definitive form thereof included in the Series 2004 Bond Resolution. Copies of documents are available from Bathgate Capital Partners (the "Placement Agent") until the issuance and delivery of the Series 2004 Bonds, and thereafter from the District.

Continuing Disclosure. In connection with the issuance of the Series 2004 Bonds, and in order to assist the Placement Agent in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended, the District will deliver a Continuing Disclosure Undertaking in which it will agree to provide annually certain additional financial information and operating data and to provide notice of certain enumerated events, if determined to be material. See "CONTINUING DISCLOSURE UNDERTAKING" and "APPENDIX H - FORM OF CONTINUING DISCLOSURE UNDERTAKING" for a description of the nature of the annual information and the notices of material events to be provided and other terms of the Continuing Disclosure Undertaking.

THE FOREGOING INFORMATION IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE DETAILED INFORMATION CONTAINED IN THIS PRIVATE PLACEMENT MEMORANDUM. EACH PROSPECTIVE INVESTOR SHOULD READ THE PRIVATE PLACEMENT MEMORANDUM IN ITS ENTIRETY.

LIMITED OFFERING; INVESTOR SUITABILITY

The Series 2004 Bonds are offered and may be sold only to a limited number of investors who satisfy the definition of an "accredited investor" within the meaning of Sections 3(b) and (4)(2) of the Securities Act, by regulation adopted thereunder by the SEC, and who execute and deliver an Investment Letter in the form appended to this Private Placement Memorandum. Prospective investors may be required to provide such evidence as may be deemed necessary to substantiate the accuracy of the representations in the Investment Letter.

The Series 2004 Bonds will be sold only to persons each of whom the Placement Agent reasonably believes (a) has such knowledge and experience in financial and business matters that such investor is capable of evaluating the merits and risks of the prospective investment, and (b) is not purchasing for more than one account or with a view to distributing the Series 2004 Bonds.

The Series 2004 Bonds are an illiquid investment and may not be transferred or resold unless they are either registered under the Securities Act and the securities laws of the state(s) having jurisdiction over the transfer, or unless an exemption from registration is available. No public market currently exists for the Series 2004 Bonds, and no such market is anticipated to develop. Investors will be required to bear the financial risks of this investment for an indefinite period of time, and therefore Series 2004 Bonds should not be purchased by an investor unless the investor is able to hold such securities indefinitely.

The Series 2004 Bonds will contain a restrictive legend that provides substantially as follows:

"This Bond is transferable only to an "accredited investor" as that term is defined under Sections 3(b) and (4)(2) of the Securities Act of 1933, as amended, by regulation adopted thereunder by the U.S. Securities and Exchange Commission."

The foregoing suitability standards are minimum requirements for prospective purchasers of Series 2004 Bonds. The satisfaction of such standards does not necessarily mean the Series 2004 Bonds are a suitable investment for a prospective investor. Accordingly, each prospective investor is urged to consult with its own tax and financial advisors to determine whether an investment in the Series 2004 Bonds is appropriate in light of the tax and financial situation applicable to such prospective investor.

APPLICATION OF PROCEEDS OF THE SERIES 2004 BONDS

The Series 2004 Bonds are being issued to refund the Prior Obligations. The District estimates that the proceeds derived from the sale of the Series 2004 Bonds will be applied substantially as follows:

Refund the Prior Obligations	\$12,310,000
Cost of Issuance	<u>400,000</u>
Principal amount of Series 2004 Bonds	<u>\$12,710,000</u>

DESCRIPTION OF THE SERIES 2004 BONDS

General Description

The Series 2004 Bonds are issued in fully registered and certificated form in the aggregate principal amount of \$12,710,000. Interest on the Series 2004 Bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2005. The initial Interest Rate on the Series 2004 Bonds shall be four percent (4.00%) per annum and thereafter the Interest Rate shall be increased as follows:

<u>Interest Period</u>			<u>Interest Rate</u>
Issue Date	through	5/31/2006	4.00%
6/1/2006	through	5/31/2007	4.25%
6/1/2007	through	5/31/2008	4.50%
6/1/2008	through	11/30/2008	5.25%
12/1/2008	through	5/31/2009	6.00%
6/1/2009	through	11/30/2009	7.00%
12/1/2009	through	Maturity	8.00%

Notwithstanding anything herein to the contrary, the Interest Rate shall never exceed eight (8.00%) per annum. The Series 2004 Bonds will be dated the date of issuance and delivery thereof, will be issued in denominations of \$1,000 and integral multiples thereof, and will mature on December 1, 2024, subject to redemption prior to maturity as discussed in "Redemption Prior to Maturity" below.

The Series 2004 Bonds are issued in full conformity with the constitution and laws of the State, particularly Title 31, Article 1, Colorado Revised Statutes, and pursuant to the Series 2004 Bond Resolution. The Series 2004 Bonds are authorized to be issued without prior approval by the electors of the District. See "THE DISTRICT - District Financial Operations - *State Constitutional Tax and Spending Limitations* - Debt Structure."

Payment Provisions

Interest on the Series 2004 Bonds accrues from their date of issuance and delivery and is payable on each June 1 and December 1 (each referred to herein as an "Interest Payment Date"), commencing June 1, 2005. Interest on the Series 2004 Bonds (except for the final installment of interest on the Series 2004 Bonds, which is payable upon presentation and surrender of the Series 2004 Bonds) is payable by check or draft mailed by American National Bank, Denver, Colorado, as paying agent for the Series 2004 Bonds (the "Paying Agent"), at the close of business on the 15th day of the month immediately preceding a Bond Payment Date (the "Regular Record Date"), to the registered owners of the Series 2004 Bonds (the "Owners") at the addresses appearing in the registration books maintained by American National Bank, Denver, Colorado, as registrar for the Series 2004 Bonds (the "Registrar"). In the case of an Owner of \$1,000,000 or more in the aggregate principal amount of the Series 2004 Bonds, payments of principal of and interest on the Series 2004 Bonds may be made by wire transfer of funds to a bank account designated by such Owner in written instructions furnished to the Paying Agent.

Any interest not paid when due and any interest accruing after maturity will be paid to the Owner of each Series 2004 Bond entitled to receive such interest, determined as of the close of business on the Special Record Date, which shall be fixed by the Paying Agent for such purpose, irrespective of any transfer of ownership of the Series 2004 Bond subsequent to such Special Record Date and prior to the date fixed by the Paying Agent for the payment of such interest, by check or draft mailed as aforesaid. Notice of the

Special Record Date and of the date fixed for the payment of such interest is to be given by sending a copy thereof by first-class, postage prepaid mail, at least ten (10) calendar days prior to the Special Record Date, to the Placement Agent and to the Owner of each Series 2004 Bond upon which interest will be paid, determined as of the close of business on the day preceding such mailing, at the address appearing in the Bond Register.

The principal amount and final installment of interest on each Series 2004 Bond is payable to the Owner thereof upon presentation and surrender of such Series 2004 Bond when due at the corporate trust office of the Paying Agent in Denver, Colorado, or such other place as the Paying Agent establishes.

Redemption Prior to Maturity

Optional Redemption. Optional Redemption. The Series 2004 Bonds are subject to redemption on December 1, 2015, and on any Interest Payment Date thereafter, at the option of the Board on behalf of the Enterprise, as a whole or in integral multiples of \$1,000, upon payment of the optional redemption price equal to the principal amount of the Series 2004 Bonds to be redeemed plus interest to accrue on such Series 2004 Bonds to the designated optional redemption date plus a prior redemption premium as follows:

<u>Optional Redemption Date</u>	<u>Redemption Price</u>
December 1, 2015 or June 1, 2016	103%
December 1, 2016 or June 1, 2017	102%
December 1, 2017 or June 1, 2018	101%
December 1, 2018 and thereafter	100%

Special Redemption. Upon certain events of casualty or condemnation, the Series 2004 Bonds will be subject to special redemption, in whole or in part, on any date at a redemption price equal to their principal amount plus accrued interest to the date of redemption, in the event the Systems have been destroyed or damaged or title has been taken by condemnation to the extent that it cannot be restored within six months, or the reasonably estimated cost of restoring the Systems exceeds the proceeds of any insurance or condemnation award.

Partial Redemption. If less than all of the Series 2004 Bonds are to be redeemed on any prior redemption date, the Series 2004 Bonds to be redeemed are to be selected by lot prior to the date fixed for redemption, in such manner as the Registrar determines. The Series 2004 Bonds may be redeemed only in integral multiples of \$1,000. In the event a Series 2004 Bond is of a denomination larger than \$1,000, a portion of such Series 2004 Bond may be redeemed, but only in the principal amount of \$1,000 or any integral multiple thereof. Such Series 2004 Bond will be treated for the purpose of redemption as that number of Series 2004 Bonds which results from dividing the principal amount of such Series 2004 Bond by \$1,000.

Notice of Redemption. In the event any of the Series 2004 Bonds or portions thereof (which are to be in amounts equal to \$1,000 or any integral multiple thereof) are called for redemption as provided above, notice thereof identifying the Series 2004 Bonds or portions thereof to be redeemed is to be given by the Registrar by mailing a copy of the redemption notice by first class mail (postage prepaid), not less than thirty (30) calendar days prior to the date fixed for redemption, to the Owner of each Series 2004 Bond to be redeemed in whole or in part at the address shown on the Bond Register. Failure to give such notice by mailing to any Owner, or any defect therein, will not affect the validity of any proceeding for the redemption of other Series 2004 Bonds as to which no such failure or defect exists. The redemption of the Series 2004 Bonds may be contingent or subject to such conditions as may be specified in the notice. All Series 2004

Bonds so called for redemption will cease to bear interest after the specified redemption date, provided funds for their redemption are on deposit at the place of payment at that time.

Transfers and Exchanges

The Series 2004 Bonds may be transferred only to an "accredited investor" as that term is defined under Sections 3(b) and (4)(2) of the Securities Act, by regulation adopted thereunder by the U.S. Securities and Exchange Commission. Subject to the foregoing restriction, Series 2004 Bonds may be transferred upon the Bond Register upon delivery of the Series 2004 Bonds to the Registrar accompanied by a written instrument or instruments of transfer in form and with guaranty of signature satisfactory to the Registrar, duly executed by the Owner of the Series 2004 Bonds to be transferred or his attorney-in-fact or legal representative, containing written instructions as to the details of the transfer of such Series 2004 Bonds, along with the social security number or federal employer identification number of such transferee. No transfer of any Series 2004 Bond will be effective until entered on the Bond Register.

In all cases of the transfer of a Series 2004 Bond, the Registrar is to enter the transfer of ownership in the Bond Register and authenticate and deliver to the transferee or transferees a new fully registered Series 2004 Bond or Series 2004 Bonds of authorized denominations for the aggregate principal amount which the Owner is entitled to receive at the earliest practicable time in accordance with the provisions of the Resolution. The Registrar will charge the Owner of such Series 2004 Bond for every such transfer of a Series 2004 Bond an amount sufficient to reimburse it for its reasonable fees and for any tax or other governmental charge required to be paid with respect to such transfer.

The District, the Paying Agent and the Registrar are not required to issue or transfer any Series 2004 Bonds (a) during a period beginning on the Regular Record Date and ending at the close of business on the ensuing Interest Payment Date, or (b) during the period beginning at the opening of business on a date forty-five (45) calendar days prior to the date of any redemption of Series 2004 Bonds and ending at the opening of business on the first business day following the day on which the applicable notice of redemption is mailed. The Registrar is not required to transfer any Series 2004 Bonds selected or called for redemption, in whole or in part. The District, the Paying Agent and the Registrar may deem and treat the registered owner of any Series 2004 Bond as the absolute owner thereof for all purposes (whether or not such Series 2004 Bond shall be overdue) and any notice to the contrary is not binding upon the District, the Paying Agent or the Registrar.

Lost, Stolen, Destroyed or Mutilated Series 2004 Bonds

Any Series 2004 Bond that is lost, stolen, destroyed or mutilated may be replaced or paid by the Registrar in accordance with and subject to the limitations of applicable law. The applicant for any such replacement Series 2004 Bond will be required to post such security, pay such costs and present such proof of ownership and loss as may be required by applicable law, or in the absence of specific requirements, as may be required by the Registrar.

Water and Wastewater Enterprise Mandatory Sinking Fund Requirements

Set forth in the following table are the mandatory sinking fund requirements with respect to the obligations of the Water and Wastewater Enterprise following the issuance of the Series 2004 Bonds and the refunding of the Prior Obligations.

**Mandatory Sinking Fund Requirements on
Water and Wastewater Enterprise Obligations
Following the Issuance of the Series 2004 Bonds and the
Refunding of the Prior Obligations
(rounded)**

<u>Year</u>	<u>Series 2004 Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	--	\$ 523,934	\$ 523,934
2006	--	540,176	540,176
2007	--	571,950	571,950
2008	--	714,938	714,938
2009	--	953,250	953,250
2010	--	1,016,800	1,016,800
2011	--	1,016,800	1,016,800
2012	\$ 710,000	1,016,800	1,726,800
2013	1,000,000	960,000	1,960,000
2014	1,000,000	880,000	1,880,000
2015	1,000,000	800,000	1,800,000
2016	1,000,000	720,000	1,720,000
2017	1,000,000	640,000	1,640,000
2018	1,000,000	560,000	1,560,000
2019	1,000,000	480,000	1,480,000
2020	1,000,000	400,000	1,400,000
2021	1,000,000	320,000	1,320,000
2022	1,000,000	240,000	1,240,000
2023	1,000,000	160,000	1,160,000
2024	1,000,000	80,000	1,080,000
	<u>\$ 12,710,000</u>	<u>\$ 12,594,648</u>	<u>\$ 25,304,648</u>

¹ See "SECURITY FOR THE SERIES 2004 BONDS - Source of Payment - *Special Obligations*" and "THE DISTRICT - Debt Structure."

SECURITY FOR THE SERIES 2004 BONDS

Source of Payment

Special Obligations. The Series 2004 Bonds, together with the interest thereon, are special obligations of the District which are payable only out of the 2004 Bond Account, into which the District covenants to deposit Net Revenues of the Systems in amounts sufficient to pay when due the principal of and interest on the Series 2004 Bonds. The Series 2004 Bonds constitute an irrevocable lien on the Net Revenues. See "Additional Obligations Payable from the Net Revenues - *Additional Parity Obligations*" below.

The Series 2004 Bonds are not general obligations of the District and are not payable in whole or in part from ad valorem taxes or any other form of taxation. Moreover, the District is not authorized to levy taxes. See "THE DISTRICT." The Owners may not look to any general or other fund of the District for the payment of the principal of and interest on the Series 2004 Bonds, and the Series 2004 Bonds do not constitute a debt or an indebtedness or a multiple fiscal year debt or other financial obligation of the District within the meaning of any constitutional or statutory provision or limitation.

Net Revenues

The Net Revenues pledged to the payment of the Series 2004 Bonds consists of the Gross Revenues after deducting the Operation and Maintenance Expenses. See "THE WATER AND WASTEWATER ENTERPRISE - Water and Wastewater System Financial Information."

"Gross Revenues" is defined in the Series 2004 Bond Resolution as all aggregate income and revenues directly or indirectly derived by the Enterprise from the joint operation and use of the Systems, or any part thereof, including without limitation, any rates, fees, plant investment fees or tap fees derived from Systems customers located outside the District's legal boundaries, standby charges, availability fees, tolls and charges for the services furnished by, or for the use of, the Systems, and all income attributable to any past or future dispositions of Systems property or rights or related contracts, settlements or judgments, transfers from the Enterprise Escrow Account and including investment income accruing from moneys held to the credit of the Water and Wastewater Enterprise Revenue Fund; provided however, that there shall be excluded from Gross Revenues any tap fees derived from Systems customers located within the District's legal boundaries, any moneys borrowed and used for providing Systems; any money and securities, and investment income therefrom, in any refunding fund, escrow fund or similar account pledged to the payment of any bonds or other obligations; and any moneys received as grants or appropriations from the United States, the State of Colorado or other sources, the use of which is limited or restricted by the grantor or donor to the provision of Systems or for other purposes resulting in the general unavailability thereof, except to the extent any such moneys shall be received as payments for the use of the Systems, services rendered thereby, the availability of any such service or the disposal of any commodities therefrom.

"Operation and Maintenance Expenses" is defined as all reasonable and necessary current expenses, paid or accrued, for operating, maintaining and repairing the Systems, including without limitation legal and overhead expenses directly related to the administration of the Systems, insurance premiums, audits, charges of depository banks and paying agents, professional services, salaries and administrative expenses, labor and the cost of materials and supplies for current operation; provided however, that there shall be excluded from Operation and Maintenance Expenses any allowance for depreciation, payments in lieu of taxes or franchise fees, legal liabilities not based on contract, expenses incurred in connection with Systems, payments due in connection with any bonds or other obligations issued to provide Systems, and charges for the accumulation of reserves.

The payment of the Series 2004 Bonds is not secured by any encumbrance, mortgage or other pledge of property of the District except for the lien on the Net Revenues and any other moneys lawfully pledged for the payment of the Series 2004 Bonds. No property of the District, subject to such exception, shall be liable to be forfeited or taken in payment of the Series 2004 Bonds.

Funds and Accounts; Flow of Funds

The Series 2004 Bond Resolution creates as a book account, the Water and Wastewater Revenue Fund, to be maintained by the District in accordance with the Series 2004 Bond Resolution. See "THE WATER AND WASTEWATER ENTERPRISE - Water and Wastewater System Financial Information."

Water and Wastewater Revenue Fund. The Series 2004 Bond Resolution provides that there is to be credited to the Water and Wastewater Revenue Fund all Gross Revenues immediately upon receipt. There is to be paid from the Water and Wastewater Revenue Fund all Operation and Maintenance Expenses as they become due and payable, after which the Net Revenues are to be applied in the following order of priority:

FIRST: To the credit of the Bond Payment Account the amounts required by the Series 2004 Bond Resolution.

SECOND: To the credit of any other fund or account hereafter established for the payment of the principal of, premium, if any, and interest on Parity Obligations, including any sinking fund, reserve fund or similar fund or account established therefor, in the amounts required by the resolution or other enactment authorizing the issuance of such Parity Obligations.

THIRD: To the credit of any other fund or account hereafter established for the payment of the principal of, premium, if any, and interest on Parity Subordinate Obligations, including any sinking fund, reserve fund or similar fund or account established therefor, in the amounts required by the resolution or other enactment authorizing the issuance of such Subordinate Obligations.

FOURTH: To the credit of any other fund or account as may be designated by the District to be used for any lawful purpose of the District.

Moneys held in the Water and Wastewater Revenue Fund may be deposited or invested in Permitted Investments only. Except to the extent otherwise required by the Series 2004 Bond Resolution to comply with the District's tax covenants made therein and applicable arbitrage rebate obligations, any investment income earned on amounts on deposit in the Water and Wastewater Revenue Fund is to remain in the Water and Wastewater Revenue Fund, and in such case the deposits of Net Revenues to the Water and Wastewater Revenue Fund required above may be reduced accordingly.

Bond Payment Account. Upon delivery of the Refunding Bonds, there shall be deposited with the Paying Agent and credited to the Bond Payment Account the accrued interest, if any, paid by the original purchasers of the Refunding Bonds. On or before the last Business Day of May and November each year, so long as the Refunding Bonds are outstanding, commencing the last Business Day of November, 2004, there shall be credited to the Bond Payment Account from the Net Revenues an amount sufficient to pay the principal of and interest on the Refunding Bonds due on the next Interest Payment Date.

Moneys held in the Bond Payment Account may be deposited or invested in Permitted Investments only. Except to the extent otherwise required by the Series 2004 Bond Resolution to comply with the District's tax covenants made therein and applicable arbitrage rebate obligations, any investment income earned on amounts on deposit in the Bond Payment Account is to remain in the Bond Payment Account, and in such case the deposits of Net Revenues to the Bond Payment Account required above may be reduced accordingly.

Enterprise Escrow Account. An escrow account (the "Enterprise Escrow Account") was established under the Escrow Agreement originally dated as of January 17, 2002, as amended, between the District acting for the Water and Wastewater Enterprise and the Paying Agent under which certain moneys are being held for the payment of the principal of and interest on the Series 2004 Bonds as provided therein.

Maintenance of Rates and Coverage

The District covenants in the Series 2004 Bond Resolution that it will maintain enforce and collect rates, fees, plant investment fees, availability fees, tolls and charges for services furnished by or the use of either the Water System or the Wastewater System to create Gross Revenues each Fiscal Year sufficient to pay Operation and Maintenance Expenses and to create Net Revenues in an amount equal to not less than

110% of the amount necessary to pay when due the principal and interest on the Series 2004 Bonds and any Parity Obligations coming due during such Fiscal Year. In the event that the Gross Revenues at any time is not sufficient to make such payments (unless sufficient funds are escrowed for such purpose with the Trustee), the District covenants to increase such rates, fees, plant investment fees, availability fees, tolls and charges to an extent which will insure the payments and accumulations required by the Series 2004 Bond Resolution. See "THE WATER AND WASTEWATER ENTERPRISE - Water and Wastewater System Financial Information."

Historical and Budgeted Net Revenues

Historical and Budgeted Enterprise Net Revenues

The District's Water Enterprise and Wastewater Enterprise were combined into a joint Water and Wastewater Enterprise in 2002. Set forth hereafter is a calculation of the Enterprise Net Revenues actually generated by the Water and Wastewater Enterprise in 2002 and 2003 and budgeted for 2004.

	<u>Actual 2002</u>	<u>Actual 2003</u>	<u>Budget 2004</u>
Enterprise Gross Revenues ¹	\$1,673,555	\$1,880,683	\$1,706,500
Enterprise Operation and Maintenance Expenses ²	<u>(834,529)</u>	<u>(1,076,722)</u>	<u>(1,007,250)</u>
Enterprise Net Revenues	839,026	803,961	699,250
Debt Service on the Senior Enterprise Bonds	<u>968,340</u>	<u>486,929</u>	<u>533,500</u>
Enterprise Net Revenues Available to pay Base Rentals	<u>(\$129,314)</u> ³	<u>\$ 314,032</u>	<u>\$ 165,750</u>

¹ This constitutes all aggregate income and revenues directly or indirectly derived by the Enterprise from the operation and use of the Water and Wastewater System, or any part thereof, including without limitation, any rates, fees, plant investment fees or tap fees derived from customers located outside the District's legal boundaries, standby charges, availability fees, tolls and charges for the services furnished by, or for the use of, the Water and Wastewater System, and all income attributable to any past or future dispositions of Water and Wastewater System property or rights or related contracts, settlements or judgments, transfers from the Enterprise Escrow Account established by the resolution authorizing the issuance of the Senior Enterprise Bonds and including investment income accruing from moneys held to the credit of the District's Water and Wastewater Enterprise Fund; provided, however, that there shall be excluded from Enterprise Gross Revenues any plant investment or tap fees derived from Water and Wastewater System customers located within the District's legal boundaries, any moneys borrowed and used for providing the Water and Wastewater System; any money and securities, and investment income therefrom, in any refunding fund, escrow fund or similar account pledged to the payment of any bonds or other obligations; and any moneys received as grants or appropriations from the United States, the State or other sources, the use of which is limited or restricted by the grantor or donor to the provision of the Water and Wastewater System or for other purposes resulting in the general unavailability thereof, except to the extent any such moneys shall be received as payments for the use of the Water and Wastewater System, services rendered thereby, the availability of any such service or the disposal of any commodities therefrom.

² This constitutes all reasonable and necessary current expenses, paid or accrued, for operating, maintaining and repairing the Water and Wastewater System, including, without limitation, legal and overhead expenses directly related to the administration of the Water and Wastewater System, insurance premiums, audits, charges of depository banks and paying agents, professional services, salaries and administrative expenses, labor and the cost of materials and supplies for current operation; provided, however, that there shall be excluded from Enterprise Operation and Maintenance Expenses any allowance for depreciation, payments in lieu of taxes or franchise fees, legal liabilities not based on contract, Capital Expenditures incurred in connection with the Water and Wastewater System, payments due in connection with any bonds or other obligations issued to provide the Water and Wastewater System, and charges for the accumulation of reserves.

³ Paid out of escrowed funds on deposit with the trustee, loans from other enterprises and District subsidiaries.

Sources: District 2002 and 2003 Annual Financial Reports; and District 2004 Budget

See "THE WATER AND WASTEWATER ENTERPRISE - Water and Wastewater System Financial Information," "THE SERIES 2004 BONDS - Water and Wastewater Enterprise Mandatory Sinking Fund Requirements" and "Net Revenues" and "Maintenance of Rates and Coverage" above in this section.

Cash Flow Projection

A projection of the cash flow of the Water and Wastewater Enterprise through 2024 (the "Cash Flow Projection") has been made by Falcon Properties and is included herein as "APPENDIX F - PROJECTED CASH FLOWS OF THE WATER AND WASTEWATER ENTERPRISE FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2024." The forecasts therein are based on certain information and assumptions that were provided by, or reviewed and agreed to by, District management. In the opinion of Falcon Properties, these assumptions provide a reasonable basis for the forecasts. The Cash Flow Projection should be read in its entirety for an understanding of the forecasts and the underlying assumptions contained therein. Prospective investors are cautioned that any forecast is subject to risks and uncertainties. Inevitably, some assumptions used to develop the forecast will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecast and actual results, and those differences may be material. See also "FORWARD LOOKING STATEMENTS."

Additional Obligations Payable from the Net Revenues

Superior Obligations Prohibited. The Series 2004 Bond Resolution provides that no additional bonds, notes, interim securities or other obligations may be issued payable from the Net Revenues and having a lien thereon which is superior to the lien thereon of the Series 2004 Bonds.

Additional Parity Obligations. The Series 2004 Bond Resolution provides that so long as no Event of Default shall have occurred and be continuing, the District may issue Additional Parity Obligations if the following conditions are met:

(i) the District is in substantial compliance with all of the covenants of the Series 2004 Bond Resolution;

(ii) the District is current in the accumulation of all amounts required to be then accumulated in the Bond Payment Account; and

(iii) the Net Revenues for the 12-month period immediately preceding the date of issuance of such Parity Obligations is sufficient to pay an amount representing not less than 110% of the Combined Maximum Annual Principal and Interest Requirements for the Series 2004 Bonds, any Parity Obligations then outstanding and the Parity Obligations proposed to be issued. For purposes of such test, the Net Revenues may be increased if there has been adopted a schedule of increases in rates, fees, plant investment fees, availability fees, tolls and charges during or since the preceding 12-month period by adding to the actual revenues for said preceding 12-month period, an estimated sum equal to 100% of the estimated increase in revenues which would have been realized during said preceding 12-month period, had such increase been in effect during all of said preceding 12-month period. A written certificate by an Independent Accountant or Consulting Engineer that the Net Revenues are sufficient shall conclusively determine the right of the District to authorize, issue, sell and deliver Parity Obligations.

Subordinate Obligations. The Series 2004 Bond Resolution provides that so long as no Event of Default (defined below) thereunder shall have occurred and be continuing, nothing therein prevents the District from issuing Subordinate Obligations.

OTHER PROVISIONS OF THE SERIES 2004 BOND RESOLUTION

Tax Covenants

The District covenants in the Series 2004 Bond Resolution that it will not directly or indirectly use or permit the use of proceeds of the Series 2004 Bonds, or any other funds of the District from whatever source derived, to acquire any investment, and it will not take or permit to be taken any other action, which would cause the Series 2004 Bonds to be characterized as arbitrage bonds within the meaning of Section 148 of the Code or which would otherwise cause the interest on the Series 2004 Bonds to lose its excludability from gross income for federal income tax purposes.

The District covenants that it will comply with all arbitrage rebate provisions of the Code in the event that the Series 2004 Bonds become subject to such rebate provisions.

The District covenants that it will not take or permit to be taken any action that would cause the Series 2004 Bonds to be characterized as private activity bonds within the meaning of Section 141 of the Code, that it will take all actions within its power and permitted by law which are or may be necessary to prevent the Series 2004 Bonds from being characterized as private activity bonds, and that it will establish reasonable procedures to comply with the foregoing covenants. To this end, the District will not permit more than 10% of the proceeds of the Series 2004 Bonds to be used (directly or indirectly) in the trade or business of nongovernmental persons in a manner that could cause the Series 2004 Bonds to be characterized as private activity bonds within the meaning of the Section 141 of the Code. For this purpose, a person uses the proceeds of the Series 2004 Bonds if (i) it owns or leases all or a portion of the improvements financed with the proceeds of the Series 2004 Bonds, (ii) it is loaned all or a portion of those proceeds, (iii) it has actual or beneficial use of all or a portion of the improvements financed with the proceeds of the Series 2004 Bonds pursuant to a management or incentive payment contract, an output contract or another arrangement or (iv) the proceeds are used to satisfy a primary and unconditional obligation of such person to provide the improvements financed with the proceeds of the Series 2004 Bonds, unless the District receives an opinion of nationally recognized municipal bond counsel to the effect that such use will not adversely affect the exclusion of interest on the Series 2004 Bonds from gross income for federal income tax purposes. A person is *not* treated as using the proceeds for this purpose merely because it uses the improvements financed with the proceeds of the Series 2004 Bonds as a member of the general public; however, use will not be treated as general public use if such person has priority rights or other preferential benefits in respect of the improvements financed with the proceeds of the Series 2004 Bonds pursuant to an arrangement with the District unless the District receives an opinion of nationally recognized municipal bond counsel to the effect that such arrangement will not adversely affect the exclusion of interest on the Series 2004 Bonds from gross income for federal income tax purposes. In addition, the District will not use (directly or indirectly) any of the proceeds of the Series 2004 Bonds to make or finance a loan (or deemed loan) to nongovernmental persons.

The District covenants that it will take all actions within its power and permitted by law which are or may be necessary to assure that interest on the Series 2004 Bonds at all times remains excludable from gross income for federal income tax purposes, including complying with the provisions of the District's Tax Compliance Certificate (to be executed at Closing), the covenants set forth in the Series 2004 Bond Resolution and all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2004 Bonds for interest on the Series 2004 Bonds to be, or continue to be, excluded from gross income for federal income tax purposes. See generally "TAX MATTERS."

Other Protective Covenants

The District further irrevocably covenants and agrees in the Series 2004 Bond Resolution with each and every Owner that so long as any of the Series 2004 Bonds remain outstanding:

(a) The District will continue to operate and manage the Systems in an efficient and economical manner and keep and maintain separate accounts of the receipts and expenses thereof in such manner that the Gross Revenues and the Net Revenues may at all times be readily and accurately determined.

(b) The District will furnish no free service from the Systems, and if the District uses the facilities of the Systems for its own purposes, it will pay monthly a fair and reasonable amount for such service. In no event is the District required to pay a greater amount than would be charged a private consumer for the same amount of service. The District is to include in its annual appropriation and budget amounts sufficient to pay for all service so used.

(c) The District will not sell or alienate any of the property constituting any part or all of the Systems in any manner or to any extent as might reduce the security provided for the payment of the Series 2004 Bonds, but the District may sell any portion of such property which has been replaced by other similar property of at least equal value, or which ceases to be necessary for the efficient operation of the Systems; provided, however, that the proceeds of any such sale of property are to be included as part of the Gross Revenues.

(d) The District will not sell, dispose of or otherwise alienate all or substantially all of the Systems unless (i) the purchasing party assumes all obligations of the District under the Series 2004 Bond Resolution, (ii) the District receives an opinion of nationally recognized municipal bond counsel to the effect that such sale will not adversely affect the excludability of interest on the Series 2004 Bonds from gross income for federal income tax purposes, and (iii) such sale does not adversely affect the rating then applicable to the Series 2004 Bonds, if any.

(e) The District will promptly render bills for services furnished by or the use of the Systems, will use all legal means to assure prompt payment thereof, will take such action as may be necessary to make delinquent rates, fees, tolls and charges of the Systems a lien upon the real property served, and to the extent permitted by law, will discontinue service to any user who becomes delinquent in the payment of such charges until the delinquency and all interest, costs and expenses incident thereto have been paid in full.

(f) At least once a year in the time and manner provided by law, the District will cause an audit to be performed of the records relating to the revenues and expenditures of the Systems, and mail a copy of such audit report to the Placement Agent. Such audit may be made part of and included within the general audit of the District, and made at the same time as the general audit. In addition, at least once a year in the time and manner provided by law, the District Board, on behalf of the District, will cause a budget to be prepared and adopted. Copies of the budget and the audit are to be filed with the Division of Local Government in the State Department of Local Affairs and the State Auditor in the time and manner provided by law.

(g) The District will fulfill or cause to be fulfilled all of its obligations under the Continuing Disclosure Agreement.

(h) The District will carry fire and extended coverage, workmen's compensation, public liability and such other forms of insurance on insurable Systems property as would ordinarily be carried by utilities having similar properties of equal value, such insurance being in such amounts as will protect the Systems and its operation. In the event of any loss or damage to the Systems, or in the event part or all of the Systems is taken by the exercise of a power of eminent domain, the insurance proceeds or the condemnation award are to be used for restoring, replacing or repairing the property lost, damaged or taken, and the remainder thereof, if any, is to be considered to be Gross Revenues; provided however, that if the District Board determines that the operation of the Systems and the security for the Series 2004 Bonds will not be adversely affected thereby, the District Board may determine not to restore, replace or repair the property lost, damaged or taken, and all of the insurance proceeds or condemnation award are to be considered to be Gross Revenues.

(i) Each District official or other person having custody of any funds derived from the operation of the Systems, or responsible for the handling of such funds, will be fully bonded at all times, which bond is to be conditioned upon the proper application of such funds.

Events of Default and Remedies

Events of Default. Each of the following events constitutes an "Event of Default" under the Series 2004 Bond Resolution: (a) payment of the principal of, premium if any or interest due with respect to any Series 2004 Bond or Parity Obligation is not made by the District when due; (B) the District defaults in the punctual performance of its covenants in the Series 2004 Bond Resolution for sixty (60) calendar days after written notice has been given by the Owners of not less than 25% of the outstanding principal amount of the Series 2004 Bonds; or (c) a petition in bankruptcy is filed by or against the District.

Remedies. Upon the occurrence and continuance of an Event of Default, any Owner of a Series 2004 Bond, or a trustee therefor, may protect and enforce the rights of any Owner by proper legal or equitable remedy deemed most effectual including mandamus, specific performance of any covenants, the appointment of a receiver (the consent to such appointment being granted by the Series 2004 Bond Resolution), injunctive relief or requiring the District Board to act as if it were the trustee of an express trust, or any combination of such remedies, provided however, that any action brought pursuant to an Event of Default under clause (b) above may be brought only upon the written consent of the Owners of not less than 25% in principal amount of the then outstanding Series 2004 Bonds and Parity Obligations. All proceedings must be maintained for the equal benefit and protection of all Owners. Any receiver appointed to protect the rights of Owners may take possession of and operate and maintain the Recreational Facilities in the same manner as the District itself might do. The failure of any Owner to proceed does not relieve the District or any person of any liability for failure to perform any duty under the Series 2004 Bond Resolution. The foregoing rights are in addition to any other right, and the exercise of any right by any Owner will not be deemed a waiver of any other right.

Amendments to the Series 2004 Bond Resolution

The District may, without the consent of or notice to the Owners, adopt amendments or supplements to the Series 2004 Bond Resolution for any one or more of the following purposes:

(a) to cure any ambiguity, to cure, correct or supplement any formal defect or omission or inconsistent provision contained in the Series 2004 Bond Resolution, to make any provision necessary or desirable due to a change in law, to make any provisions with respect to matters arising under the Series 2004 Bond Resolution, or to make any provisions for any other purpose, if such provisions are necessary or desirable and do not materially adversely affect the interests of the Owners;

(b) to subject to the Series 2004 Bond Resolution or pledge to the payment of the Series 2004 Bonds additional revenues, properties or collateral; and

(c) to grant or confer upon the Owners any additional rights, remedies, powers or authority that may be lawfully granted to or conferred upon the Owners.

Except for the foregoing amendments, the Owners of not less than 75% in aggregate principal amount of the Series 2004 Bonds then outstanding have the right, from time to time, to consent to and approve the adoption by the District of amending or supplemental resolutions as are deemed necessary or desirable by the District, for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Series 2004 Bond Resolution; provided however, that without the consent of the Owners of all the Series 2004 Bonds affected thereby, nothing in the Series 2004 Bond Resolution permits, or is to be construed as permitting:

(a) Extend the maturity of any Series 2004 Bond;

(b) Reduce the principal amount or interest rate of any Series 2004 Bond;

(c) Create a lien upon the Net Revenues ranking prior to or on a parity with the lien created by the Series 2004 Bond Resolution;

(d) Reduce the principal amount of the Series 2004 Bonds required for consent to any waiver or modification; or

(e) Establish priorities between Bonds.

If at any time the District desires to adopt an amendatory or supplemental resolution for any of the purposes requiring consent of the Owners, the District shall cause notice of the proposed adoption of such amendatory or supplemental resolution to be given by mailing such notice by certified or registered first-class mail to the Placement Agent and to each Owner of a Series 2004 Bond at the address shown on the Bond Register, at least thirty (30) calendar days prior to the proposed date of adoption of any such amendatory or supplemental resolution. Such notice is to briefly set forth the nature of the proposed amendatory or supplemental resolution and state that copies thereof are on file at the offices of the District or some other suitable location for inspection by all Owners. If, within sixty (60) calendar days or such longer period as is prescribed by the District following the giving of such notice, the Owners of not less than the required percentage in aggregate principal amount of the Series 2004 Bonds then outstanding at the time of the execution of any such amendatory or supplemental resolution shall have consented to and approved the execution thereof, no Owner of any Series 2004 Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the adoption and effectiveness thereof, or to enjoin or restrain the District from adopting the same or from taking any action pursuant to the provisions thereof.

Defeasance

When all principal and interest in connection with the Series 2004 Bonds have been duly paid, the pledge and lien and all obligations under the Series 2004 Bond Resolution will thereby be discharged and the Series 2004 Bonds will no longer be deemed to be outstanding within the meaning of the Series 2004 Bond Resolution. There will be deemed to be such due payment of the Series 2004 Bonds when the District has placed in escrow and in trust with a commercial bank located within or without the State, and exercising trust powers, an amount sufficient (including the known minimum yield from Federal Securities (defined as direct obligations of, or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America) in which such amount may be initially invested) to meet all requirements of principal and interest as the same become due to their final maturities or upon designated prior redemption dates. The Federal Securities are to become due at or prior to the respective times on which the proceeds thereof are needed, in accordance with a schedule established and agreed upon between the District and such bank at the time of the creation of the escrow, or the Federal Securities are to be subject to redemption at the option of the holders thereof to assure such availability as so needed to meet such schedule. The sufficiency of the Federal Securities deposited to any escrow is to be verified by an Independent Accountant (as defined in the Series 2004 Bond Resolution).

RISK FACTORS

THE PURCHASE AND OWNERSHIP OF THE SERIES 2004 BONDS INVOLVES SIGNIFICANT RISK AND MAY NOT BE A SUITABLE INVESTMENT FOR ALL PROSPECTIVE INVESTORS. Payment of the Series 2004 Bonds is subject to certain risks which are described throughout this Private Placement Memorandum. Accordingly, each prospective purchaser should make an independent evaluation of all of the information presented in this Private Placement Memorandum in order to make an informed investment decision. This section of the Private Placement Memorandum does not include all risks to which payment of the Series 2004 Bonds is subject, but is merely an attempt to summarize certain of those risks. Each potential investor in the Series 2004 Bonds should read this Private Placement Memorandum in its entirety.

Sources of Payment for the Series 2004 Bonds; Subordinate Obligations

The Series 2004 Bonds are special revenue obligations of the District payable solely from and secured by the pledge of lien on the Net Revenues. The Owners of the Series 2004 Bonds may not look to the general fund or any other fund of the District, or compel the levying of any tax, for payment of the Series 2004 Bonds. The Series 2004 Bonds are not secured by any encumbrance or mortgage on any property of or in the District. See "SECURITY FOR THE SERIES 2004 BONDS" and "THE WATER AND WASTEWATER ENTERPRISE - Water and Wastewater System Financial Information."

Limited Operating History

The District was established in late 1995, the Water Enterprise was created and Water System rates, fees, plant investment fees, availability fees, tolls and charges imposed initially in early 1997, and the Wastewater Enterprise was created and Wastewater System rates, fees, plant investment fees, availability fees, tolls and charges imposed initially in early 1997. Accordingly, there is only a limited operating history with respect to the District and the Systems. There currently are approximately 1,413 customers of the Water and Wastewater Enterprise. See "THE WATER AND WASTEWATER ENTERPRISE."

No Debt Service Reserve

No debt service reserve fund or account has been established to provide a source of funds in the event that the Net Revenues are insufficient to pay scheduled amounts with respect to the Series 2004 Bonds when due. Accordingly, if an insufficiency occurs and funds are not provided by Falcon Properties or from some other source, an Event of Default will occur. See "SECURITY FOR THE SERIES 2004 BONDS - Funds and Accounts; Flow of Funds - *Enterprise Escrow Account*" and "OTHER PROVISIONS OF THE SERIES 2004 BOND RESOLUTION - Events of Default and Remedies."

No Independent Feasibility Study; Cash Flow Projection

The District has to date paid its obligations with respect to the Systems when due. However, no independent feasibility study has been performed which would furnish assurance that such timely payments will continue in the future. The audited financial statements of the District for Fiscal Years 2003, 2002 and 2001, and the District's Fiscal Year 2004 Budget, are appended to this Private Placement Memorandum. In addition, a projection of the cash flow of the Water and Wastewater Enterprise through 2020 has been made by Falcon Properties and is included herein as "APPENDIX F - PROJECTED CASH FLOWS OF THE WATER AND WASTEWATER ENTERPRISE FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2024." The forecasts therein are based on certain information and assumptions that were provided by, or reviewed and agreed to by, District management. In the opinion of Falcon Properties, these assumptions provide a reasonable basis for the forecasts. The Cash Flow Projection should be read in its entirety for an understanding of the forecasts and the underlying assumptions contained therein. Prospective investors are cautioned that any forecast is subject to risks and uncertainties. Inevitably, some assumptions used to develop the forecast will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecast and actual results, and those differences may be material. See also "FORWARD LOOKING STATEMENTS" below.

Reliance on Falcon Properties

Falcon Properties and its affiliate, Falcon Town Center, LLP, currently own most of the undeveloped property within the District. The Gross Revenues will be derived solely from occupied homes and commercial customers of the Water and Wastewater System, which in turn is dependent primarily on the sale of the property in the Woodmen Hills Development. The failure of Falcon Properties to sell property in the District, and the rate of development of such property by those to whom such property is sold, may materially adversely affect the ability of the District to generate sufficient Net Revenues to pay the debt service on the Senior Obligations, and only thereafter on the Series 2004 Bonds, when due. No assurance can be given as to the future timing or rate of sales and/or development of property in the Woodmen Hills Development. See "THE WOODMEN HILLS DEVELOPMENT."

Reliance of Falcon Properties on Consultant

Falcon Properties has retained Skywalk Development Corporation ("SDC") and Woodmen Hills Realty Corp., corporations owned or controlled by Benjamin I. Green, to oversee the development of the Woodmen Hills Development, as well as to act as Falcon Properties' exclusive sales agent to manage the sales and marketing of the Development. Falcon Properties also sells lots to SDC, which develops and sells such lots to builders. Should Mr. Green fail to carry out his duties as the consultant, the development of the Woodmen Hills Development may be adversely affected. In addition, should Mr. Green's sales efforts prove unsuccessful, the rate of property sales could be adversely affected. While Falcon Properties has retained the right to replace Mr. Green should he not perform to expectations, sales nevertheless may not reach the level necessary to timely pay the Series 2004 Bonds. None of the partners of Falcon Properties will take an

active role in the marketing and sales of the lots. Neither Mr. Green, SDC nor Woodmen Hills Realty Corp. are guarantors or are otherwise obligated to pay the Series 2004 Bonds. See "THE WOODMEN HILLS DEVELOPMENT - Consulting Agreement."

Economic Conditions May Affect Development

General and local economic conditions may affect the rate of development in the District and the District's ability to generate sufficient Net Revenues to pay the debt service on the Series 2004 Bonds. Such conditions include changes in the national political or economic conditions, changes in the investment climate for real estate, changes in local market conditions, changes in interest rates, changes in real estate tax rates, other operating expenses, governmental rules and fiscal policies, costs related to the development and/or improvement of properties, zoning and platting restrictions, environmental considerations, uninsured losses and other factors beyond the control of the Lessor or the District. See "THE WATER AND WASTEWATER ENTERPRISE" and "APPENDIX A - THE LOCAL ECONOMY."

Competition

The business of developing real estate is extremely competitive and subject to unpredictable fluctuations in economic factors, such as rising interest rates and availability of capital, all of which are beyond the control of Falcon Properties and SDC. In addition, many firms which are involved in the development and sale of real estate in El Paso County have greater financial, personnel and technical resources and more expertise than Falcon Properties and SDC. Competition from other developers and developments may adversely affect future growth in the District to an extent which cannot be predicted. See "THE WOODMEN HILLS DEVELOPMENT."

Potential Conflicts of Interest

The issuance of the Series 2004 Bonds, the application of proceeds therefrom and various ongoing activities of the District may involve actual or potential conflicts of interest. State law provides that a Director must disqualify himself or herself from voting on any issue in which such Director has a conflict of interest unless the conflict of interest is disclosed in a certificate filed with the Secretary of State and the District Board at least 72 hours in advance of any meeting in which such conflict may arise. However, compliance with such statute does not provide absolute certainty that contracts between the District and its Directors or related entities will not be subject to defenses or challenge on the basis of alleged conflicts. It is expected that the interested members of the District Board will comply with the statute by making advance disclosure of their conflicts, and that they will not disqualify themselves from voting. See "THE DISTRICT - Governing Board" and "THE WOODMEN HILLS DEVELOPMENT."

Additional Obligations

Under the Series 2004 Bond Resolution, the District may not issue any additional obligations payable from and secured by Net Revenues and having a lien thereon which is superior to the lien of the Series 2004 Bonds, but may, subject to compliance with certain conditions, issue Additional Parity Obligations. See "SECURITY FOR THE SERIES 2004 BONDS - Additional Obligations Payable From the Net Revenues."

No Rating or Secondary Market

The Series 2004 Bonds have not been rated by any rating agency, and although the Placement Agent expects to maintain a secondary market in the Series 2004 Bonds after the initial offering, no assurance can be given that such a secondary market will develop or be maintained by the Placement Agent or others.

Thus, purchasers of the Series 2004 Bonds should be prepared to hold their Series 2004 Bonds to maturity or prior redemption, if any.

Change in Laws

Various Colorado and federal laws, constitutional provisions and regulations apply to the operation of the Water System, the imposition and collection of rates, fees, tolls and charges applicable to the Water System and the obligations created by the issuance of the Series 2004 Bonds. No assurance can be given that there will not be any change in interpretation of, or addition to, the applicable laws, provisions and regulations which would have a material effect, directly or indirectly, on the affairs of the District.

Enforceability of Owners' Remedies Upon Default; No Trustee

The enforceability of the rights and remedies of Owners of the Series 2004 Bonds may be limited to the extent that the obligations incurred by the District in issuing the Series 2004 Bonds are subject to the federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; to usual equity principles which may limit the specific enforcement under State law of certain remedies; to the exercise by the United States of America of the powers delegated to it by the federal Constitution; and to the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies. Bankruptcy proceedings or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Series 2004 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights. No trustee, agent or other fiduciary is appointed under the Series 2004 Bond Resolution to act on behalf of the Owners to monitor compliance by the District with the provisions of the Series 2004 Bond Resolution or to enforce the rights and remedies of Owners of the Series 2004 Bonds upon the occurrence of an Event of Default.

Tax Matters

Bond Counsel will opine that interest paid by the District on the Series 2004 Bonds will be excludable from the gross income of the Owners thereof for federal income tax purposes. However, Bond Counsel's opinion is conditioned on continuing compliance by the District with representations and covenants contained in certain certificates with respect to arbitrage and other tax matters to be delivered at closing. Failure to comply with the representations and covenants made in those certificates could cause interest on the Series 2004 Bonds to lose its excludability from gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004 Bonds. Furthermore, certain categories of Owners of Series 2004 Bonds may be subject to taxation as discussed under "TAX MATTERS." Any amounts received as Developer Supplemental Payments are not excludable from the gross income of the recipients thereof for federal income tax purposes. Prospective purchasers of the Series 2004 Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Series 2004 Bonds.

THE DISTRICT

Formation and Boundaries

The District is a quasi-municipal corporation and a political subdivision of the State. The District was created pursuant to State law for the purpose of providing water, wastewater, streets, safety protection and park and recreation facilities and programs for the benefit of property within its boundaries.

The Order and Decree of the District Court in and for El Paso County creating the District was entered on November 8, 1995. Organization of the District was preceded by the approval by the El Paso County Board of Commissioners of a service plan (the "Service Plan") consisting of a financial plan, including proposed funding therefor, and a preliminary engineering survey detailing the proposed improvements within the District; the adoption by the Board of County Commissioners of a resolution approving the formation of the District; and approval of the District's formation by the qualified electors of the proposed District at an election held for such purpose. The Board of County Commissioners approved amendments to the District's Service Plan in April of 1997 and March of 2000.

The District currently encompasses approximately 1,715 acres in the north central part of unincorporated El Paso County and to the east of Colorado Springs. The boundaries of the District are generally coterminous with the Woodmen Hills mixed use development ("Woodmen Hills"), which has been under active development since 1995 by Falcon Properties and Investments, LLP. Woodmen Hills currently is planned to include 2,655 residences and 34 acres of commercial development. There are presently approximately 1,413 occupied residences in the District, with several additional homes either completed but unsold or sold and under construction. The District also includes the Safeway-anchored Falcon Town Center at Woodmen Hills, the Shops at the Falcon Town Center strip mall and the Woodmen Hills Plaza strip mall. See "THE WOODMEN HILLS DEVELOPMENT" below. For certain economic and demographic information relating to the District and El Paso County, see "THE LOCAL ECONOMY."

Powers

The rights, powers, privileges, authorities, functions and duties of the District are established by State law, particularly Title 32, Article 1, Colorado Revised Statutes (the "Special District Act"), which provides that the District has the power: to enter into contracts and agreements; to sue and be sued; to incur indebtedness and revenue obligations; to fix and from time to time increase or decrease fees, rates, tolls, or charges for services, programs or facilities furnished by or available from the District, and to pledge such revenue for the payment of any indebtedness of the District; to acquire, dispose of and encumber real and personal property, and any interest therein, including leases and easements; and to have the management, control and supervision of all the business affairs of the District, and the construction, installation, operation and maintenance of the District improvements therein. In addition, subject to compliance with statutory procedures, the District Board may order the inclusion or exclusion of real property to or from the District, as the case may be, thereby modifying the boundaries of the District. Pursuant to this power, the 535 acre Bennett Ranch property ("Bennett Ranch") was included in the District in 1999. See "THE WOODMEN HILLS DEVELOPMENT" below.

Governing Board

The District is governed by a five member board of directors, the members of which must be electors of the District as defined by State law who are elected to staggered four year terms of office at successive biennial elections. Vacancies on the District Board are filled by appointment of the remaining directors, the appointee to serve until the next regular election, at which time the vacancy is filled by election for any remaining unexpired portion of the term. Directors are limited by the State constitution to serving two consecutive terms of office, although power is reserved to District voters to authorize the lengthening, shortening or elimination of such limitation.

The District Board holds both regular meetings and, as needed, special meetings. Each director is entitled to one vote on all questions before the District Board when a quorum is present. Directors may receive a maximum of \$1,200 per year as compensation for service to the District, payable not in excess of \$75 per meeting attended. Further, directors may not receive compensation from the District as employees

of the District, except as provided above. Members of the District Board currently serve without compensation.

The present directors, their positions on the District Board, principal occupations and terms of office are as follows:

District Board of Directors

<u>Name and Office</u>	<u>Principal Occupation</u>	<u>Current Term Expires</u>
William C. Hooper, President	Retired	May 2006
Robert Miller, Vice-President	Insurance Agent	May 2006
Jennifer Barber, Secretary	University Chair	May 2006
Brad Rutan	Systems Programmer	May 2008
Robert Sobota	Sales Manager	May 2008

Laura Lambert, who is not a member of the District Board, serves as an Assistant Secretary of the District Board and the Treasurer of the District. Ms. Lambert is also a member of the Authority Board.

State law provides that directors may disclose to the Colorado Secretary of State and the District Board potential conflicts of interest or personal or private interests which are proposed or pending before the District Board. Additionally, no contract for work or material, including a contract for services, regardless of the amount, may be entered into between the District and a District Board member, or between the District and the owner of 25% or more of the territory within the District, unless a notice is published for bids and such District Board member or owner submits the lowest responsible and responsive bid. See "RISK FACTORS - Potential Conflicts of Interest."

Administration

The District Board is responsible for the overall management and administration of the affairs of the District; however, by resolution, the District Board has appointed Falcon Properties as the manager of the District. The District has nine full time and five part time employees, including a recreation director/clubhouse manager, water and sewer manager and an assistant, and maintenance manager. The District's administrative offices are located within the District at 11720 Woodmen Hills Drive, Falcon, Colorado 80831.

District Facilities

Pursuant to the Service Plan, the District may provide the following public services:

Street Improvements and Safety Protection. The design and construction of street improvements and related safety protection devices and drainage requirements, including culverts, bridges, trails, lighting landscaping, traffic and safety controls and devices and all related drainage facilities. With certain exceptions, these facilities are to be dedicated to the County, which will thereafter be responsible for their maintenance.

Water. The design, construction, operation and maintenance of a complete potable and non-potable water supply, storage, transmission and distribution system consisting of transmission lines, distribution mains, laterals, storage facilities, land easements and appurtenant facilities. See "THE WATER AND WASTEWATER ENTERPRISE" below.

Wastewater. The design, construction, operation and maintenance of a complete local sanitary sewage collection system, transmission and treatment system, consisting of mains, laterals, transmission lines and all necessary, incidental and appurtenant facilities, land and easements. See "THE WATER AND WASTEWATER ENTERPRISE" below.

Park and Recreation. The design, construction, operation and maintenance of park and recreation facilities, including open space, trails and landscaping. See "THE WOODMEN HILLS DEVELOPMENT - General" below.

Operation, Maintenance and Administration. Operation, maintenance and administration of the District and its facilities are funded solely by user charges, subsidized as necessary by Falcon Properties. The District has contracted with the YMCA of the Pikes Peak Region to operate the District's Recreation Center East and the swimming pool at the Recreation Center West. See "THE WOODMEN HILLS DEVELOPMENT - General" below.

Responsibilities of Falcon Properties. The District's Service Plan provides that Falcon Properties is to subsidize the costs of capital infrastructure for the property within the original boundaries of the District (excluding the wastewater treatment plant expansion discussed in "THE WATER AND WASTEWATER ENTERPRISE - The Wastewater System - *Treatment*" below), but that the District is to oversee all design and construction to ensure that such is done pursuant to applicable governmental and regulatory standards. Falcon Properties did not assume the responsibility for the infrastructure capital costs associated with serving any lands subsequently annexed to the District, such as Bennett Ranch, although it retained the option to finance such improvements. The responsibilities of Falcon Properties for the construction of infrastructure may be performed through a separate development company under contract to Falcon Properties. All such facilities generally are to be dedicated to the District or the County, as applicable, although it is anticipated that the streets in the Courtyards at Woodmen Hills development described below will not be dedicated to the County but rather will be maintained through a homeowners association.

Falcon Properties is entitled to reimbursement from the District or annexed properties for the cost of any infrastructure within the District's original boundaries, and for the cost of oversizing any structures required in order to accommodate annexations. Water and sewer tap fees derived by the District from property within the District have been assigned to Falcon Properties as reimbursement for the costs of constructing and installing the capital infrastructure in the District. Falcon Properties has in turn assigned those tap fee revenues to the Authority. *Tap fees payable with respect to property within the District's boundaries do not constitute Enterprise Gross Revenues and will not be available for the payment of the District's obligations under the Lease.* Tap fees paid by out-of-District customers have not been assigned by the District and do constitute Enterprise Gross Revenues. See "THE WATER AND WASTEWATER ENTERPRISE - Water and Wastewater System Financial Information."

Falcon Properties also has agreed to pay the operating shortfalls of the District and to help the District meet its other obligations as set forth in the Service Plan as it may be amended from time to time, until the District has adequate revenues and resources to meet its obligations. In fiscal year 2004 Falcon Properties gave the District \$650,000 in cash and other substantial assets and \$620,400 for bond costs. Falcon Properties has a responsibility to fund the District deficit. Since 1997, Falcon Properties has funded directly or indirectly in excess of \$1,704,804.99. To assess any risk in connection with Falcon Properties ability to fund the District deficit, see "APPENDIX G - Financial Statements of Falcon Properties". See also "THE WOODMEN HILLS DEVELOPMENT - Acquisition and Development Financing" below.

Woodmen Hills Public Facilities Authority. A portion of the public infrastructure for the District has been financed on behalf of and with the consent of the District by the Authority as discussed below.

Intergovernmental Agreements

In anticipation of Falcon Properties' development of the Woodmen Hills Development in 1984 and 1985, Falcon Properties and the Paint Brush Hills Metropolitan District jointly financed the construction of the Water and Wastewater Treatment Plant ("WWTP") pursuant to an agreement between the parties dated February 25, 1988. Upon formation of the District, Falcon Properties assigned its interest in the agreement to the District. The agreement provides for the joint ownership, operation and management of the WWTP. Each party has a 50% interest as tenants in common of the WWTP and the capacity thereof (except that the parties have subsequently agreed that the additional capacity to be provided as the result of the current expansion project will be owned by and reserved to the District), and an equal responsibility for management and operation of the WWTP. Fixed costs of the WWTP are payable by the parties on an equal basis, while variable costs are payable by the parties in proportion to the amount of effluent delivered to the WWTP for treatment. All costs associated with any expansion of the WWTP are to be borne by the party or parties causing the need for the expansion, and therefore the District will be responsible for all costs of the project. The District's ongoing financial obligations under this agreement currently are being subsidized by Falcon Properties.

Woodmen Hills Public Facilities Authority

Organization. The Woodmen Hills Public Facilities Authority (the "Authority") is a Colorado nonprofit corporation incorporated on March 9, 1999, and exempt from federal income taxation pursuant to Section 501(c)(3) of the Code. The District Board approved the organization, purposes and activities of the Authority and appointed the initial members of the Board of Directors of the Authority (the "Authority Board").

Purpose. The Articles of Incorporation of the Authority provide that the objects and purposes for which the Authority has been founded and incorporated are as follows:

(a) To receive and maintain a fund or funds of real or personal property, or both, and, subject to the restrictions and limitations hereinafter set forth, to use and apply the whole or any part of derived income therefrom and the principal thereof exclusively for community interest purposes in such a manner that no part of the net earnings of the Authority shall inure to the benefit, or be distributable to its members (if any), trustees, officers, directors or other private persons, except that the Authority shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth within the Articles of Incorporation and the Authority's Bylaws. No substantial part of the activities of the Authority shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the Authority shall not participate or intervene in (including the publishing or distribution of statements) any political campaign for or on behalf of any candidate for public office. The Authority, further, may not engage in any activities which would cause it to be characterized as an action organization, as described in Treasury Regulations § 1.503(c)-1.

(b) To design, acquire, construct and install public facilities on behalf of and within and without the boundaries of the District, and lease, convey, sell, transfer or otherwise make such public facilities to the District; operate, maintain, repair and improve, or cause to be operated, maintained, repaired or improved, such public facilities; perform all functions necessary or appurtenant thereto; participate in the financing of the construction of such public facilities and projects; to enter into, perform and carry out contracts of every kind necessary to, or in connection with, or incidental to, the

accomplishment of the purposes of the Authority; to acquire any property, real or personal, in fee or under lease, or any rights therein or appurtenant thereto, necessary for the construction, development, renovation and operation of such public facilities and projects; and to borrow moneys and to issue evidence of indebtedness and to secure the same by mortgage, deed of trust, pledge or other lien, in furtherance of any or all of the objects of its business in connection with said facilities or projects.

(c) Subject to the provisions of the Articles of Incorporation, to acquire, receive, purchase, take by gift, grant, devise, bequest or otherwise, real, personal or mixed property of every kind and description, wheresoever the same may be situated and without limit as to amount, including, but without limiting the generality of the foregoing, money, lands, building, mortgages, stock, debentures, other securities, bills, notes, claims or other interests in any property which may be necessary or convenient for the conduct of the purposes of the Authority; to hold, invest, reinvest, use, mortgage, pledge, sell, lease, assign, give, exchange, transfer or otherwise deal with the same at its pleasure; to borrow money from any person, firm or corporation and to issue notes, bonds and other obligations of the Authority from time to time for any of the objects or purposes of the Authority and to issue notes, bonds and other obligations of the Authority and to secure the same by lawful means; to enter into, make, perform and carry out contracts of any kind or nature for any of the objects or purposes of the Authority; to retain employees, independent contractors and consultants, for the purpose of performing the purposes of the Authority; to maintain adequate and complete books and records of all such purposes and to own and hold such real and personal property as will be useful or necessary to the successful operation of the foregoing activities.

(d) The Authority shall have the power to do and perform all things whatsoever set out within the Articles of Incorporation which are necessary or incidental to the accomplishment of the purposes set forth within the Articles of Incorporation.

The Articles of Incorporation further provide that upon the dissolution of the Authority, all of the assets of the Authority are to be distributed to the District or to such other organization or organizations organized and operated exclusively for public purposes designated by the District.

Management. The Authority is managed by a three member Board of Directors appointed by a majority vote of the District Board. Authority Board members may, but need not, be members of the District Board. Authority Board members serve five year terms of office or until their death, removal, resignation or disability. Vacancies on the Authority Board are filled by appointment of the District Board for the remainder of such unexpired term. Members of the Authority Board may be removed, for good cause shown, by majority vote of the membership of the Authority Board.

Directors hold regular meetings and, as needed, special meetings. Each Authority Board member present at a meeting is entitled to one vote on all questions before the Authority Board. In addition, any action required by law to be taken at a meeting of the Authority Board, or any action which may be taken at a meeting of the Authority Board, may be taken without a meeting if a consent in writing setting forth the action so taken is signed by all of the Authority Board members. Authority Board members serve without compensation.

The present Authority Board members, their positions on the Authority Board and terms of office as members of the Authority Board are as follows:

Authority Board of Directors

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Benjamin I. Green	President	March 2009
Gerald Olesh	Secretary/Treasurer	March 2009
Laura J. Lambert	Assistant Secretary/Treasurer	March 2009

Members of the Authority Board currently handle the day-to-day operation of the Authority with responsibility for, among other things, coordination of the design and planning of improvements undertaken by the Authority; interface with the District and other governmental and quasi-governmental entities having jurisdiction over such improvements; negotiation and execution on behalf of the Authority of any agreements with governmental authorities and contractors, subcontractors and vendors for Authority improvements; creation of budgets and all other actions necessary or incident to the foregoing. The principal occupations of the Authority Board members and their relationships to, and resulting potential conflicts of interest with, the District and Falcon Properties are set forth below.

The Authority's Bylaws provide that if any Authority Board member, other officer or employee of the Authority owns or controls a direct interest in any property included or planned to be included in any project, he or she is to immediately disclose the same in writing to the Authority, and such disclosure is to be entered upon the minutes of the Authority. Upon such disclosure, such Authority Board member, officer or other employee may not participate in any action by the Authority affecting the carrying out of the project or the planning or undertaking of the project unless a majority of the remaining membership of the Authority Board determines that, in the light of such personal interest, the participation of such Authority Board member, officer or other employee in any such act would not be contrary to the interests of the Authority. Authority Board members have filed conflict disclosure statements with the Authority Board.

The Authority's Bylaws acknowledge that some or all of the officers and directors of the Authority will be employees of, or have ownership interest in, owners or developers of real estate within the Woodmen Hills development as discussed in. For purposes of the Bylaws, the term "conflict of interest" does not include any real or apparent conflict of interest arising solely by reason of ownership of property within such development, or employment by any such owner of property, on the part of any Authority Board member, officer or employee of the Authority.

Skywalk Development Corporation ("Skywalk"), a Colorado corporation which is controlled by Benjamin I. Green, the President of the Authority, has entered into contracts to perform certain construction services (involving construction and supervision of certain public improvements as described more fully in contracts between Skywalk and the Authority) as the construction manager for the Authority. Certain of these services have been delegated by Skywalk to Merlin Distribution, Inc., the president of which also is Mr. Green. The terms of the contracts pursuant to which Skywalk will perform such construction and supervision are and will be consistent with those of other comparable contracts and provide that Skywalk will receive 10% of the cost thereof as a fee for its overhead and an additional 5% of the aggregate of such costs and overhead as profit.

Skywalk also has entered into contracts with Falcon Properties for the purpose of completing lot development work on various portions of the property owned by Falcon Properties which are being developed as residential lots, and on portions of the commercial and retail parcels owned by Falcon Town Center, LLP (of which Mr. Green controls a 20% interest), to enable such lots and parcels to be completed in a manner consistent with obligations to various purchasers of such lots and parcels. Skywalk also has performed certain land development work for Safeway, Inc., in connection with the parcel of the commercial property which it acquired in the Falcon Town Center development. Skywalk is also currently developing

residential lots for Pulte Homes. See "The Woodmen Hills Development - *Marketing and Sales of Commercial Property*."

Woodmen Hills Realty Corp., a corporation also controlled by Mr. Green, has entered into various Exclusive Listing Agreements with Falcon Properties, Nobility Homes, Inc. formerly Trail Ridge Homes, Inc., Falcon Town Center, LLP and Skywalk pursuant to which Woodmen Hills Realty Corp. is the sole marketing and sales agent for residential property and is the sole marketing and sales agent for commercial/retail property in Woodmen Hills. In such capacity, Woodmen Hills Realty Corp. also receives/pays co-operating commissions to other real estate brokers.

The Authority's Articles of Incorporation provide that to the fullest extent allowed by law, any Authority Board member is not to be liable to the Authority for monetary damages for an act or omission in the Authority Board member's capacity as a director, except that such provision is not to eliminate or limit the liability of a Authority Board member for: (a) a breach of a Authority Board member's duty of loyalty to the Authority; (b) an act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law; (c) a transaction from which a Authority Board member received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the Authority Board member's office; or (d) an act or omission for which the liability of a Authority Board member is expressly provided for by statute.

From time to time the Authority has issued bonds to finance public water, sewer, street, safety protection, drainage and park and recreation improvements for the use and benefit of the District, which bonds are payable solely from assessments imposed by the Authority on certain property at the request and with the consent of the owner of the assessed property. Upon completion of the improvements financed with a particular series of bonds, or in any event no later than such time as such bonds are paid and discharged, the Authority is required to convey to the District its right, title and interest in and to the improvements financed with such bonds. In certain cases, a portion of the improvements have or may be conveyed by the District to El Paso County (the "County") as required by the District's Service Plan. The Authority has the following obligations outstanding:

<u>Issue</u>	<u>Principal Amount Issued</u>	<u>Principal Amount Outstanding</u>	<u>Property Assessed</u>	<u>Property Owner</u>
Assessment Revenue Bonds, Series 1999A, and Residual Certificates of Participation (the "Series 1999A Bonds")	\$ 5,500,000	\$ 3,922,000	Woodmen Hills Filing 7	Falcon Properties
Assessment Revenue Bonds, Series 1999B (the "Series 1999B Bonds")	650,000	226,000	Woodmen Hills Filing 11	Falcon Properties
Assessment Revenue Bonds, Series 2001B (the "Series 2001B Bonds")	1,670,000	502,000	Woodmen Hills Filing 11	Falcon Properties
Assessment Revenue Bonds, Series 2001C-2 (the "Series 2001C-2 Bonds")	9,000,000	7,074,000	Woodmen Hills Filing 11	Falcon Properties
Assessment Revenue Bonds, Series 2003A (the "Series 2003A Bonds")	4,140,000	3,822,000	Assessed Property	Falcon Properties
Assessment Revenue Bonds, Series 2003B (the "Series 2003B Bonds")	<u>1,360,000</u>	<u>984,000</u>	Assessed Property	Falcon Properties
	<u>\$22,320,000</u>	<u>\$16,530,000</u>		

Public Services Provided by Other Entities

The District is located in unincorporated El Paso County, and many urban facilities and services such as police protection are readily available from the County. The property in the District receives electric service from Mountain View Electric Association, natural gas service from the City of Colorado Springs and telephone service from Qwest Communications. Trash removal is required to be privately contracted. Fire protection is provided by Falcon Fire Protection District, and public education is available from Falcon School District No. 49. The elementary school has been constructed on the property and was opened in January 2000.

Financial Information

TABOR. Section 20 of Article X of the Colorado Constitution, referred to therein as the "Taxpayers Bill of Rights" and commonly known as "TABOR," sets forth restrictions on the State and local governments such as the District (but excluding "enterprises" as defined therein) with regard to taxes, spending, revenue increases and borrowing, as well as a requirement for covered public entities to maintain emergency reserves which may be used only for certain purposes, excluding compensation for economic conditions, revenue shortfalls or salary or fringe benefit increases. Certain TABOR limitations may be exceeded or overridden with voter approval, and at the District's organizational election, the qualified electors of the proposed District exempted from the fiscal year revenue and spending limits of TABOR all income and revenue received by the District in 1996 and thereafter.

TABOR also requires prior voter approval for the creation of any multiple fiscal year direct or indirect debt or other financial obligation whatsoever without adequate present cash reserves pledged irrevocably and held for payments in all future fiscal years, except for refinancing at a lower interest rate or adding new employees to existing pension plans.

TABOR excepts from its restrictions the fiscal operations and borrowings of an "enterprise," which is defined as a government-owned business authorized to issue its own revenue bonds and receiving under 10% of its revenues in grants from all State and local governments combined. The District has created the Water and Wastewater Enterprise and the Recreational Facilities Enterprise for purposes of operating and accounting for its water and wastewater facilities and recreational facilities, respectively. See "THE WATER AND WASTEWATER ENTERPRISE" below. Qualification as an enterprise is an annual determination, and therefore the present designation and/or qualification as an enterprise does not guarantee enterprise status in the future.

District Revenue Sources. The District's Service Plan provides that all expenses of the District are to be financed by user fees imposed by the District on property owners and other users of District facilities and services. The District currently does not have the authority under its Service Plan to levy ad valorem property taxes. The future imposition of property taxes by the District would require the approval by the El Paso County Board of Commissioners of an amendment to the Service Plan and authorization of the tax by the District's electorate. The service fees currently imposed by the District consist of the following:

<u>Service</u>	<u>Monthly Fee</u>
Water ^{1,2}	\$ 45
Wastewater ^{1,2}	20
Street lighting ²	5
Park and recreation ²	<u>35</u>
	<u>\$105</u>

¹ For a discussion of the District's water and sewer system rates and charges, see "THE WATER AND WASTEWATER ENTERPRISE - Rate Structure" below.

² With certain exceptions, the water, sewer and street lighting fees currently are imposed on finished and occupied homes, and upon property which remains unimproved after a specified period of time after purchase. The park and recreation fee for finished homes is imposed only on homes that are completed and sold to residents, and excludes homes held in inventory by builders; however, such fee also is imposed upon lots which remain unimproved for a period of two years after purchase.

Financial Statements. State law requires the District Board to have the District's financial statements audited at least annually. Such audited financial statements must be published and filed with the District Board by July 1 of each year and filed with the State Auditor within 30 calendar days after filing with the District Board. The District's Fiscal Year 2003 financial statements are appended to this Private Placement Memorandum.

Budgetary Process. The District is required by State law to adopt an annual budget. The budget must include all proposed expenditures for administration, operation and maintenance, debt service and capital projects for the budget year. It must also set forth the anticipated income and other means of financing the proposed expenditures for the budget year. No budget is allowed to provide for expenditures in excess of available revenues and beginning fund balances. By law, the District's Fiscal Year is the calendar year.

On or before the 15th day of October of each year, the District Board is required to propose a budget for the ensuing budget year. The Board is required to publish a notice stating that such proposed budget is open for inspection by the public and the date when the District Board will consider adoption of the budget. Prior to adoption, any elector of the District may register his or her objections to the proposed budget. Once the budget is adopted, the District Board must enact a corresponding appropriation resolution before the beginning of the Fiscal Year. The amounts appropriated may not exceed the amounts fixed in the budget as adopted by the District Board, and the District may not expend money for any of the purposes set out in the appropriation resolution in excess of the amount appropriated. Upon the adoption of the budget, the District Board must file certified copies of the budget with the State Division of Local Government.

In the case of an emergency or some contingency which was not reasonably foreseeable at the time of the adoption of the budget, the District Board may authorize the expenditure of funds in excess of the budget by a resolution adopted by a majority vote of the District Board at a public meeting. If the District receives revenues which were unanticipated or not assured at the time of adoption of the budget from any source other than ad valorem property taxes, the District Board may authorize the expenditure of these funds by adopting a supplemental budget and appropriation.

Debt Structure

Authorization. The District is authorized by State law to issue or incur various types of financial obligations. As discussed above in "Financial Information - TABOR," prior voter approval is required for the creation of any multiple fiscal year direct or indirect debt or other financial obligation whatsoever without adequate present cash reserves pledged irrevocably and held for payments in all future fiscal years, except for refinancing at a lower interest rate or adding new employees to existing pension plans, or obligations issued by an "enterprise."

The District is not authorized under its Service Plan to issue general obligation indebtedness, being obligations secured by the exercise of the taxing power. However, the District has the authority to issue obligations payable from the revenue of any District revenue producing facilities, to enter into obligations which do not extend beyond the current fiscal year (such as the Lease) and to incur certain other obligations,

none of which constitute indebtedness for purposes of Article XI, Section 6 of the State constitution but may require prior voter approval under TABOR.

The District's Service Plan authorizes the District to issue a maximum of \$16.2 million of revenue obligations.

The District's outstanding obligations contain certain restrictions on the issuance of additional obligations payable from or having a lien on the revenues from which such obligations are payable.

Outstanding Obligations. The District currently has the following bonds outstanding:

<u>Issue</u>	<u>Principal Amount Outstanding</u>
Water and Wastewater Enterprise Revenue Bonds, Series 2002 ¹	\$12,310,000
Recreational Facilities Enterprise Revenue Bonds, Series 2002 ²	2,700,000

¹ Payable solely from the net revenues of the Water and Wastewater Enterprise.

² Payable solely from the net revenues of the Recreational Facilities Enterprise.

Estimated Overlapping General Obligation Debt and Mill Levies. Various public entities whose boundaries overlap some or all of the District are authorized to incur general obligation debt, and the property in the District that is also within the boundaries of such overlapping entities is liable for a proportionate share of such debt. The following table sets forth the estimated portion of the indebtedness of such overlapping entities that is presently chargeable to the portion of such entities that overlap the District. The percentage of each entity's outstanding debt chargeable to District property owners is calculated by comparing the assessed valuation of the subject property to the total assessed valuation of the overlapping entity.

Estimated Overlapping General Obligation Debt

<u>Issuer</u>	<u>Issuer's 2003 Assessed Valuation</u>	<u>Issuer's Outstanding General Obligation Debt</u>	<u>Net Debt Chargeable to Properties in the District</u>	
			<u>Percent</u>	<u>Amount</u>
Woodmen Road Metropolitan District	\$ 4,388,100	\$10,600,000	45.00%	\$4,770,000
Falcon School District No. 49	315,635,430	60,650,000	5.87	3,563,066
Pikes Peak Library	4,653,321,197	1,015,000	0.31	3,136
				<u>\$8,336,202</u>

Sources: El Paso County Assessor's Office; and information obtained from individual entities

Cherokee Water and Sanitation District, Falcon Fire Protection District, Upper Black Squirrel Creek Ground Water Management District and Falcon Regional Transportation Metropolitan District also overlap the District but have no general obligation debt outstanding.

Mill Levies Applicable to Property in the District. Although the District currently does not have the authority to levy property taxes, owners of property in the District are obligated to pay property taxes to other taxing entities in which their property is located. The following table sets forth the total mill levy assessed against properties within the District in 2003 for collection in 2004. Future taxing entities also could be created which encompass some or all of the property in the District.

2003 Mill Levy Applicable to Properties in the District

<u>Taxing Entity</u>	<u>2003 Mill Levy¹</u>
El Paso County	6.298
Falcon School District No. 49	46.424
Falcon Fire Protection District	5.712
Pikes Peak Library	3.271
Upper Black Squirrel Creek Ground Water Management District	0.748
Woodmen Road Metropolitan District	10.000
The District	--
Total Mill Levy	<u>72.453</u>

¹ One mill equals \$0.001. Taxes are levied against the assessed valuation of real and certain personal property as determined by State law, and are payable in the year following the year of certification. The 2003 mill levies were certified in December of 2003 for collection of taxes in 2004.

Source: El Paso County Treasurer's Office

Risk Management

Insurance. The Board acts to protect the District against loss and liability by maintaining certain insurance coverages.

Sovereign Immunity. The Colorado Governmental Immunity Act, Title 24, Article 10, Part 1, Colorado Revised Statutes (the "Immunity Act"), provides that, with certain specified exceptions, sovereign immunity acts as a bar to any action against a public entity, such as the District, for injuries which lie in tort or could lie in tort.

The Immunity Act provides that sovereign immunity is waived by a public entity for injuries occurring as a result of certain specified actions or conditions, including: the operation of a non-emergency motor vehicle, owned or leased by the public entity; a dangerous condition of any public buildings; the operation of any public water, gas, sanitation, electrical, power or swimming facility; and a dangerous condition of a public highway, road or street as provided in the Immunity Act. In such instances, the public entity may be liable for injuries arising from an act or omission of the public entity, or an act or omission of its public employees, which are not willful and wanton, and which occur during the performance of their duties and within the scope of their employment. The maximum amounts that may be recovered under the Immunity Act, whether from one or more public entities and public employees, are as follows: (a) for any injury to one person in any single occurrence, the sum of \$150,000; and (b) for an injury to two or more persons in any single occurrence, the sum of \$600,000, except in such instance, no person may recover in excess of \$150,000. The District may, by resolution, increase any maximum amount that may be recovered from the District for the type of injury described in the resolution. However, the District may not be held liable either directly or by indemnification for punitive or exemplary damages.

The District may be subject to civil liability and may not be able to claim sovereign immunity for actions founded upon various federal laws. Examples of such civil liability include suits filed pursuant to 42 U.S.C. §1983 alleging the deprivation of federal constitutional or statutory rights of an individual. In addition, the District may be enjoined from engaging in anti-competitive practices which violate the antitrust laws. However, the Immunity Act provides that it applies to any action brought against a public entity or a public employee in any State court having jurisdiction over any claim brought pursuant to any federal law, if such action lies in tort or could lie in tort.

THE WATER AND WASTEWATER ENTERPRISE

In 1998, the District established its water facilities (the "Water System") and its wastewater facilities (the "Wastewater System") as separate enterprises in accordance with TABOR and article 45.1 of title 37 of the Colorado Revised Statutes (the "Water Activity Law"). In November of 2002, the two enterprises were consolidated into a single Water and Wastewater Enterprise and subsequently accounted for in the Water and Wastewater Enterprise Fund.

The Water and Wastewater Enterprise consists of (i) the water rights and facilities and improvements for the collection, treatment and distribution of water for domestic, municipal, irrigation, power and industrial purposes comprising the District's Water System, and (ii) the sewage collection, treatment and disposal plant and facility, and necessary incidentals and appurtenances thereto comprising the District's Wastewater System (the "Water and Wastewater System" or the "Systems"). The District Board acts as the governing body of the Water and Wastewater Enterprise.

Service Area

The District currently provides both water and sewer service to all developed areas within the District, as well as to a few customers located outside the District's boundaries. The District has received requests from and plans to provide service to other customers located outside the District's boundaries. From time to time, the District may consider the inclusion in the District of additional property to be provided with water and wastewater service. In August of 2003, 228.3 acres of land (commonly known as the Houtchens Property) were annexed into the District.

The Water System

The Service Plan provides that the District's Water System will consist of pipes, fire hydrants, storage facilities, pumping stations, controls, deep well construction, wells, turbine pumps and related equipment. The Water System is required to be coordinated with the Falcon Fire Protection District in order to meet fire flow requirements. Water quality is required to meet all standards as set by the Colorado Department of Health or other applicable laws and regulations. Construction and installation of the Water System is planned to be phased along with development in the District. See "THE WOODMEN HILLS DEVELOPMENT" below.

Water Resources. The total demand on the District's water supply presently is approximately 800 acre-feet per year. The District has obtained decreed water rights with a permitted appropriation of over 1,300 acre-feet per year (after applying the 300 year rule), or a total appropriation of approximately 3,300 acre-feet per year, which is expected to both exceed the water needs for the planned development of the District and permit the District to serve additional out-of-District customers

If additional water is needed for the Woodmen Hills development, Falcon Properties has committed to provide for the needs of the District, subject to certain conditions.

Water Production, Treatment, Storage and Distribution. The District currently has 11 operating wells which produce water at an aggregate rate of between 600 to 1,000 gallons per minute. Raw water pumped from the District's wells is treated at one of two filter plants. Treated water is then pumped to three storage tanks with capacities of 250,000 gallons, 1 million gallons and 2 million gallons, from where the water is delivered to customers through the District's distribution system via gravity flow. The District also receives treated water from the Cherokee Metropolitan District via a pipeline owned by the District. Transmission lines have been installed to provide service to all developed areas in Woodmen Hills, as well

as to various areas outside the District's boundaries. Additional wells and transmission facilities will be constructed.

When and if applicable, the District intends to adopt industrial pre-treatment water quality standards.

The Wastewater System

The Service Plan provides that the District's Wastewater System is to consist of a complete collection system with forced main sewage lift stations to deliver wastewater to the Paint Brush Hills Wastewater Treatment Plant owned by the District jointly with the Paint Brush Hills Metropolitan District as discussed below. The Wastewater System is to be designed, constructed and maintained in accordance with the standards of the Colorado Department of Health, El Paso County and any other applicable State or federal rules and regulations. Construction and installation of the Wastewater System is planned to be phased along with development in the District. See "THE WOODMEN HILLS DEVELOPMENT" below.

Collection. Wastewater collection lines have been installed to service all developed areas in Woodmen Hills. The collection system consists of polyvinyl chloride ("pvc") service lines and collection mains. The entire collection system flows into a lift station, from where wastewater is pumped through a force main approximately two miles to the Paint Brush Hills Wastewater Treatment Plant discussed below. The entire collection system is approximately 28 miles in length.

Approximately four miles of collection lines have been installed to serve customers located outside the District, including pvc service lines and distribution mains. The entire extraterritorial collection system flows into a lift station, from where wastewater is pumped to the District's primary lift station referenced in the previous paragraph.

Treatment. Collected wastewater is treated at the Paint Brush Hills Wastewater Treatment Plant located approximately two miles northeast of the lift station. The facility is owned jointly by the District and the Paint Brush Hills Metropolitan District and currently is being managed by the District.

The present treatment capacity of the wastewater treatment plant is 1.39 million gallons per day ("mgd") utilizing an aerated lagoon system followed by chlorination. Treated wastewater is discharged into an unnamed tributary of the Black Squirrel Creek pursuant to a discharge permit issued by the Colorado Department of Health.

In anticipation of the development of Woodmen Hills, Falcon Properties and the Paint Brush Hills Metropolitan District entered into an agreement in 1988 to jointly finance the construction of the Paint Brush Hills Wastewater Treatment Plant. Upon formation of the District, Falcon Properties assigned its interest in the agreement to the District. The agreement provides for the joint ownership, operation and management of the facility. Each party has a 50% interest as tenants in common in the facility and the original 0.8 mgd capacity thereof, and an equal responsibility for management and operation of the facility. The additional capacity resulting from a recent expansion project (0.59 mgd) is owned and reserved for use by the District. Fixed costs of the facility are payable by the parties on an equal basis, and variable costs are payable by the parties in proportion to the amount of wastewater delivered to the facility for treatment. All costs associated with any expansion of the facility are to be borne by the party or parties causing the need for the expansion.

Capital Improvements

The District determines the capital improvements to the Systems to be implemented in each Fiscal Year as part of its annual budgeting process. For Fiscal Year 2004, the District has budgeted approximately

\$1,500,000 for capital outlay related to the Systems, including water distribution facilities required to provide service to Phase 2 of Bennett Ranch and to various out-of-District customers.

Environmental and Regulatory Matters

The operation of the Systems is subject to substantial environmental regulation under both State and federal law. Although District management believes that it is presently in compliance with all material regulations affecting the Systems, there can be no assurance that future compliance with such requirements will not prevent the development of otherwise feasible projects or result in substantially increased capital and operating expenses for the Systems. The standards applicable to the Systems and the liabilities for violations are subject to amendment by the regulatory and legislative authorities.

Water and Wastewater System Financial Information

Customer and Consumption Information. The District provides water and wastewater service to all customers within its boundaries and to customers located outside the District's boundaries who request such service.

The District currently is providing water service to approximately 1,413 households and 16 commercial customers in the District, as well as 6 out-of-District customers. In 2002 and 2003, District customers consumed 90 million gallons and 109 million gallons, respectively, of treated water, most of which was by households. Through October 31, 2004, District customers consumed 211 million gallons of treated water, most of which was by households.

The District currently is providing wastewater service to approximately 1,284 households and 16 commercial customers in the District, as well as 5 out-of-District customers pursuant to extraterritorial service agreements. In 2003 and through October of 2004, the District delivered 87.2 million gallons and 96 million gallons, respectively, of wastewater to the Paint Brush Hills Wastewater Treatment Plant, virtually all of which was from households.

Rate Structure. The rates, fees, tolls and charges imposed for the availability and use of the Water and Wastewater System are set by resolution adopted by the District Board. It is the District's policy that the Systems be self-supporting from user fees.

The rates, fees, tolls and charges imposed by the District for the availability and use of the Water and Wastewater System are similar, but not identical, to those which have been imposed by other Colorado local governments. The District believes that, because such rates, fees, tolls and charges are special fees rather than a tax, they may be imposed without electoral approval. None of the rates, fees, tolls and charges fees themselves has been validated by any court proceeding. The District believes, but cannot guarantee, that such rates, fees, tolls and charges may be imposed and collected as provided in the related enabling resolutions. Effective January 2005 the District will increase the monthly resident fees based on the consumer price index.

Water Service Fees

All of the District's Water System customers are metered and billed monthly for their water usage. The District currently imposes on customers within the District a service fee of \$45 per month for the availability of and use of the Water System. This fee includes a \$20 per month flat rate for water consumption (including 7,500 gallons usage allowance) plus a \$25 per month water resource fee. Consumption in excess of 7,500 gallons but less than 10,000 gallons is billed at the rate of \$3 per thousand

gallons. Consumption in excess of 10,000 gallons but less than 20,000 gallons is billed at the rate of \$9 per thousand gallons. Consumption in excess of 20,000 gallons but less than 30,000 gallons is billed at the rate of \$12 per thousand gallons. Consumption in excess of 30,000 gallons is billed at the rate of \$15 per thousand gallons. The consumption fee currently is imposed only on finished and occupied homes, although such fee may in the future also be imposed upon property owners who purchase lots but fail to complete improvements thereon within a specified period of time.

Water consumption and resource fees for commercial and industrial property are imposed on a residential equivalency basis comparing fixture count and square footage. Water used for irrigation is billed at the rate of \$0.62 per thousand gallons. Water used for commercial construction is billed at a rate of \$80 a month until the meter is installed and then it is billed off of the meter. Water used for the golf course is billed at the rate of \$2 per thousand gallons for potable water and \$0.70 per thousand gallons for nonpotable water.

Availability of service fees of \$45 per lot per month are charged to builders commencing either 12 months after purchase of a developed lot if a residence is not under construction or occupied, or 18 months after purchase of a tap for an undeveloped lot if a residence is not under construction or occupied.

Out-of-District customers are charged water service fees at rates that are 1.5 times the rates charged to customers within the District; provided, however, that in-District water rates are charged to out-of-District developments if they provide water to the District.

Residential Construction Fees

Fees for residential construction, which include water, sewer and recreation fees, are billed at the rate of \$60 per lot per month until the meter is installed, and thereafter at a rate of \$105 per lot per month.

Wastewater Service Fees

The District currently imposes a wastewater service fee of \$20 per month for the availability of and use of the Wastewater System. Out-of-District customers are charged a wastewater service fee at a rate that is 1.5 times the rate charged to customers within the District.

Tap Fees

Tap fees are payable at the time a building permit is issued for the construction of a new home or building. Tap fees represent the customer's investment in capital facility replacement and expansion of the Systems in proportion to the customer's expected demand upon the Systems. The District currently imposes a combined water and sewer tap fee in the amount of \$10,000 per single family residential lot within the District, of which \$5,000 is for the Water System and \$5,000 is for the Wastewater System.

The water and sewer tap fees derived by the District from property within the District have been assigned by the District to Falcon Properties as reimbursement for the costs of constructing and installing the capital infrastructure in the District. Falcon Properties has in turn assigned those tap fee revenues to the Authority. Tap fees paid by out-of-District customers have not been assigned by the District and do constitute Enterprise Gross Revenues.

Miscellaneous Fees and Charges

The District imposes various miscellaneous fees to out-of-District customers in the form of line extension fees, water replacement fees and fees in aid of construction, all of which are designed generally to recover from out-of-District customers the District's costs of providing water and/or wastewater service to such customers.

The District Board has agreed with Falcon Properties that no additional, new or different fees or charges are to be levied or adopted by the District Board without the consent of Falcon Properties so long as Falcon Properties is paying the operating shortfalls of the District (as agreed upon between the District and Falcon Properties) and meeting its other obligations as set forth in the Service Plan as it may be amended from time to time. This provision could limit the enforceability of any rate covenant to the extent that the rate covenant applies to additional, new or different fees or charges.

Billing and Collections. The District bills water and wastewater service charges by the 25th day of each month. Bills are due upon receipt. If a bill is not paid by the end of the following month, the District sends the customer a delinquent notice stating that the delinquent bill must be paid within ten days, including a late fee, or water service will be shut off.

State law provides that the rates, fees, tolls, penalties or charges imposed by the District for services furnished by or the use of the Systems constitute a perpetual lien on and against the property served until paid, and any such lien may be foreclosed in the same manner as provided by State law for the foreclosure of mechanics' liens. Such lien, however, is junior to the lien of property taxes and special assessments imposed by governmental entities (not including the consensual assessments imposed by the Authority as discussed in "THE AUTHORITY - Financial Obligations"). Alternatively, the District may elect by resolution at a public meeting held after receipt of notice by the affected parties, including the property owner, to have certain delinquent fees, rates, tolls, penalties, charges or assessments made for water and wastewater service certified to the County Treasurer for collection in the same manner as ad valorem property taxes.

Rate Covenants. In the resolution authorizing the issuance of the Senior Enterprise Bonds, the District covenants that it will maintain enforce and collect rates, fees, plant investment fees, availability fees, tolls and charges for services furnished by or the use of either the Water System or the Wastewater System to create Enterprise Gross Revenues each Fiscal Year sufficient to pay Enterprise Operation and Maintenance Expenses and create Enterprise Net Revenues in an amount equal to not less than 110% of the amount necessary to pay when due the principal and interest on the Senior Enterprise Bonds and any obligations issued on a parity therewith coming due during such Fiscal Year. In the event that the Enterprise Gross Revenues at any time are not sufficient to make such payments, the District covenants to increase such rates, fees, plant investment fees, availability fees, tolls and charges to an extent which will ensure the payments and accumulations required by such resolution.

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Historical Systems Revenues. The following tables set forth Water System and Wastewater System revenue received by the District since 1998:

Systems Revenue

Year	New Water Taps ⁴	New Sewer Taps ⁴	Water Consumption Fees ⁵	Water Resource Fees ⁵	Water and Wastewater			Total Revenue
					In-District Tap Fees ¹	Out-of-District Tap Fees	Other Income ²	
1998	113	113	\$ 13,662	\$ 13,606	\$ 1,086,000	\$ 0	\$ 511	\$1,113,779
1999	146	146	52,547	49,614	1,460,000	0	45,839	1,608,000
2000	209	209	172,599	80,056	2,090,000	75,000	91,160	2,508,815
2001	402	402	227,226	344,639	4,070,000	55,000	373,387	5,070,252
2002	241	241	368,608	243,244	0	141,500	694,637	1,447,989
2003	226	226	471,576	340,609	0	0	1,049,017	1,861,202
2004 ³	234	234	542,028	302,841	0	0	387,341	1,232,210

¹ In-District tap fees through 2000 were remitted to Falcon Properties as discussed in "Plant Investment Fees" above. Starting in 2002, these tap fees were assigned to and paid directly to the Authority. The District did not book the tap fees that were assigned to the Authority. These tap fees are reflected in the annual audit by footnote. *In-District tap fees do not constitute Enterprise Gross Revenues.*

² Aid in construction, line extension fees, services to other districts, water meter installation, backflow permit income, Antler Creek Golf Course water supply fees and reimbursement from GTL, Inc.

³ Amounts received through October 2004.

⁴ In-District only.

⁵ In-District and Out-of-District.

Source: District management records

Water System User Fee Revenue

Customer Type	1999	2000	2001	2002	2003	2004 ¹
Residential	\$102,161	\$203,933	\$341,112	\$330,416	\$334,296	\$463,910
Commercial	9,113	31,521	38,167	38,192	76,691	37,353
Golf Course	0	0	0	0	59,892	39,096
Out of District	0	0	0	0	697	1,669
	<u>\$111,274</u>	<u>\$235,454</u>	<u>\$379,279</u>	<u>\$368,608</u>	<u>\$471,576</u>	<u>\$542,028</u>

¹ Fees received through October 2004.

Source: District management records

Wastewater System User Fee Revenue

<u>Customer Type</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004¹</u>
Residential	\$40,770	\$ 62,235	\$127,860	\$175,886	\$254,690	\$ 242,216
Commercial	--	11,830	22,625	25,498	15,383	10,164
Out of District	--	<u>33,231</u>	<u>8,456</u>	<u>21,516</u>	<u>3,660</u>	<u>2,706</u>
	<u>\$40,770</u>	<u>\$107,296</u>	<u>\$158,941</u>	<u>\$222,900</u>	<u>\$273,733</u>	<u>\$255,086</u>

¹ Fees received through October 2004.

Source: District management records

Historical System Financial Information. From 1998-2002, the District accounted for the Water System and the Wastewater System as separate enterprises and as separate enterprise funds. In 2003, the two enterprises were consolidated into the current Water and Wastewater Enterprise and accounted for in the Water and Wastewater Enterprise Fund. However, the District's audited financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") applicable to governmental units, which require that all the District's operations (water, wastewater, park and recreation and other) be accounted for as a single proprietary (enterprise) fund rather as separate enterprise funds for each purpose. The following table sets forth a historical comparative statement of segment information for the combined operations of the Water and Wastewater Enterprises since 1998. This information should be read together with the District's Fiscal Year 2003 financial statements appended to this Private Placement Memorandum.

See "THE BONDS - Historical and Budgeted Enterprise Net Revenues" in the body of this Private Placement Memorandum for a calculation of the Enterprise Net Revenues since 2002.

Comparative Summary of Segment Information for the Water and Wastewater Enterprises

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Operating revenues	\$ 159,736	\$ 885,588 ¹	\$ 846,767	\$ 1,393,815	\$ 1,673,555	\$ 1,880,683
Depreciation	54,789	55,354	74,016	85,607	92,524	134,213
Operating income (loss)	(140,574)	259,722	(316,083)	(74,842)	(221,837)	182,820
Non-operating revenue	101,723	19,174	275,092	350,907	592,115	3,535,717
Non-operating expense	-	-	(34,215)	(13,815)	(310,770)	(21,275)
Net income (loss)	(38,851)	278,896	(75,205)	262,250	59,507	3,697,262
Total assets	3,859,545	6,585,581	8,303,047	15,206,732	14,268,998	17,762,235
Long-term debt	1,600,000	4,100,000	5,910,000	12,310,000	12,310,000	12,310,000
Total equity	2,247,999	2,445,981	2,286,412	2,591,804	1,840,926	5,311,130

¹ Includes user fees, lease fees, plant investment fees, line extension fees and contributions in aid of construction of out-of District improvements.

Sources: District Annual Financial Reports, 1998-2003.

Comparison of Water and Wastewater Enterprise Fund 2003 and 2004 Budgets. Set forth hereafter are the 2003 and 2004 budgets for the Water and Wastewater Enterprise Fund, which are prepared in conformance with State law requirements, which differ in several respects from GAAP.

**Water and Wastewater Enterprise Fund
Comparison of 2003 and 2004 Budgets
(Non-GAAP State Law Budgetary Basis)**

	<u>2003 Budget</u> <u>(as amended)</u>	<u>2004 Budget</u> <u>(as adopted)</u>	<u>\$ Increase</u> <u>(Decrease)</u>	<u>% Increase</u> <u>(Decrease)</u>
Fund balance - January 1	\$ 2,709,281	\$ 2,795,452	\$ 86,171	3.2%
Revenues:				
Operating revenues:				
Water and sewer use fees	500,000	550,000	50,000	10.0
Water acquisition fees	265,000	285,000	20,000	7.5
Water and sewer tap fees ¹	1,130,000	0	(1,130,000)	(100.0)
Water meter installation fees	120,000	125,000	5,000	4.2
Line extension fees	70,000	100,000	30,000	42.9
Water replacement fees	25,000	50,000	25,000	100.0
Aid in construction	160,000	175,000	15,000	9.4
Plant investment fees	320,000	200,000	(120,000)	(37.5)
Other income	1,100	3,000	1,900	172.7
Golf course water	65,000	25,000	(40,000)	(61.5)
Commercial use fees	35,000	40,000	5,000	14.3
Commercial irrigation fees	50,000	50,000	0	0.0
Construction use	3,500	3,500	0	0.0
Contract fees	100,000	100,000	0	0.0
Total operating revenues	<u>2,844,600</u>	<u>1,706,500</u>	<u>(1,138,100)</u>	<u>(40.0)</u>
Non-operating revenues:				
Developer subsidy	498,000	--	(498,000)	(100.0)
Bond proceeds	--	--	--	--
Total non-operating revenues	<u>498,000</u>	<u>--</u>	<u>(498,000)</u>	<u>(100.0)</u>
Total funds available	<u>3,342,600</u>	<u>1,706,500</u>	<u>(1,636,100)</u>	<u>(48.9)</u>

[Table continued on the next page]

**Water and Wastewater Enterprise Fund
Comparison of 2003 and 2004 Budgets
(Non-GAAP State Law Budgetary Basis)**

	<u>2003 Budget (as amended)</u>	<u>2004 Budget (as adopted)</u>	<u>\$ Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Expenses:				
Operating expenses:				
Automotive expense	10,000	15,000	5,000	50.0
Automotive insurance	4,000	6,000	2,000	50.0
Chemicals	10,000	15,000	5,000	50.0
Cherokee water expense	8,500	50,000	41,500	488.2
Consulting fees	15,000	20,000	5,000	33.3
Continuing Education	2,000	4,000	2,000	100.0
Electric	160,000	240,000	80,000	50.0
Health insurance	20,000	25,000	5,000	25.0
Lift station repairs	50,000	75,000	25,000	50.0
Locating services	3,500	4,000	500	14.3
Meter Reading	7,500	8,500	1,000	13.3
Payroll tax expense	16,500	24,000	7,500	45.5
Permits and fees	13,000	15,000	2,000	15.4
Repairs and maintenance	60,000	85,000	25,000	41.7
Sanitation	3,000	6,000	3,000	100.0
Security	1,000	30,000	29,000	2,900.0
Sewer testing	12,000	12,000	0	0.0
Supplies	70,000	100,000	30,000	42.9
Telephone	7,500	7,500	0	0.0
Tools	500	750	250	50.0
Trustee fees	0	2,000	2,000	--
Uniforms	2,000	2,500	500	25.0
Wages	190,000	220,000	30,000	15.8
Water & sewer tap fee expense ¹	1,130,000	0	(1,130,000)	(100.0)
Water testing	3,000	10,000	7,000	233.3
Well expense	20,000	25,000	5,000	25.0
Worker's compensation	3,500	5,000	1,500	42.9
Total operating expenses	1,822,500	1,007,250	(815,250)	(44.7)
Non-operating expenses:				
Interest	490,000	533,500	43,500	8.9
Capital outlay	328,000	1,500,000	1,172,000	357.3
Total non-operating expenses	818,000	4,488,000	3,670,000	448.7
Net income (loss)	4,972,011	1,235,563	(3,736,448)	(75.2)
Interfund transfers in (out) ²	(615,928)	(431,200)	(184,728)	(30.0)
Fund balance - December 31	\$ 2,795,452	\$ 1,030,002	\$(1,765,450)	(63.2)%

¹ The tap fees have been assigned to the Authority commencing January 2002 which was not reflected in the 2003 Budget.

² Such transfers are in the form of temporary interfund loans.

Sources: District 2003 and 2004 Budgets and District management

THE WOODMEN HILLS DEVELOPMENT

The Woodmen Hills Metropolitan District generally encompasses the Woodmen Hills mixed use development being developed by Falcon Properties and Investments, LLP ("Falcon Properties"). The following information has been provided by Falcon Properties for use in this Private Placement Memorandum. The District has not participated in the preparation of this section. See also "THE DISTRICT," "THE WATER AND WASTEWATER FACILITIES ENTERPRISE," and "APPENDIX A - THE LOCAL ECONOMY."

General. The property originally comprising the Woodmen Hills development (approximately 1,180 acres) was acquired by the predecessor to Falcon Properties in September of 1972, and in 1999 Falcon Properties purchased the approximately 535 acre Bennett Ranch Property which was included as part of the Woodmen Hills development.

Woodmen Hills has been approved by the County for the development of a total of 2,655 single family homes and approximately 34 acres of commercial property, of which 1,413 homes have been constructed and all of the commercial property has been sold or is under option contract. Final plat approval has been obtained to develop Bennett Ranch and plat approval and PUD approval has been obtained for the Courtyards development. See "*Status of Lot Development and Sales*" below.

A 6,584 square foot clubhouse/recreation center and outdoor swimming pool is available to all residents of Woodmen Hills. This facility was constructed by Falcon Properties and completed in August 1997. The facility was purchased by the District pursuant to an installment purchase agreement. A second recreation center, including an indoor pool and children's pool, was completed in 2003 in the Bennett Ranch portion of Woodmen Hills. Woodmen Hills also includes an 11 acre park owned and operated by the County, as well as a 30 acre school site and park owned by Falcon School District No. 49. An elementary school has been constructed on this site, and the future construction of a middle school is possible. Over two miles of pedestrian and equestrian trails wind through Woodmen Hills and connect to the Rock Island Line Trail being constructed by the County. This trail starts at the southwest tip of Woodmen Hills and continues into the City of Colorado Springs. All of the park and recreational amenities purchased by or dedicated to the District become part of the District's Recreational Facilities Enterprise. Owners of residential property in the District are charged a monthly park and recreation fee for the availability and use thereof.

Falcon Properties has drafted covenants which have been recorded and run with the property in Woodmen Hills. These restrictive covenants include: pre-approval of any building plans (includes initial plans as well as any subsequent changes); no loud exterior noise; no parking of recreational or junk vehicles; no loud or odorous animals; and the exterior of the lot must be maintained in a neat and attractive manner. The covenants also contain mandatory building requirements such as: any dwelling to be built on the lot must be at least 1,300 square feet in size including the garage; the dwelling cannot be more than 35 feet in height; a minimum two car garage must attach to a dwelling; and a dwelling must be built within one year after commencement. It is the intent of Falcon Properties that these covenants will help to maintain the integrity, value and appeal of Woodmen Hills; however, the covenants may act to discourage potential purchasers because of their pervasiveness. In connection with the sale of lots to certain builders, Falcon Properties permitted such builders to record their own covenants which in some cases permit smaller dwellings on smaller (urban density) lots. Separate covenants apply to the commercial property.

Acquisition and Development Financing. In 1996, Falcon Properties borrowed \$3,500,000 from The Woodmen Hills Lending Trust, the proceeds of which were used to finance certain costs of construction of the major infrastructure for the development, including but not limited to certain asphalt-paved roads, utility lines brought to the clubhouse and available to and adequate for subdivision, wastewater lift stations, landscaping and ornamentation, and construction of the existing clubhouse/recreation center. The principal amount of that loan was subsequently increased to \$5,315,000 to finance additional infrastructure. The

principal of the loan was retired in 2002, although a financing premium in the amount of \$586,960 remains to be paid to the lender as lots are sold and water and sewer tap fees with respect to the property pledged as security for the loan are paid.

In 1999, Falcon Properties purchased the Bennett Ranch Property with a combination of cash, the seller financed Hobbs Loan (paid off) and the Woodmen Hills Lending Trust II Loan (current principal balance of \$603,000). The proceeds of the Woodmen Hills Lending Trust II Loan were also used for the purpose of financing land planning, sketch plan approval and the construction of certain infrastructure for the Bennett Ranch Property in anticipation of the sale of developed lots to homebuilders. In 2002 Falcon Properties obtained the Woodmen Hills Bennett Ranch Lending Trust 2002 Loan (current principal balance of \$562,000, to be paid off with escrowed funds on December 1, 2004) for the purpose of financing the construction of certain additional infrastructure for the Bennett Ranch Property in anticipation of the sale of developed lots to homebuilders. In 2002 Falcon Properties also obtained the Meridian Ranch Golf Course Lending Trust 2002 Loan (current principal balance of \$902,000) for the purpose of financing the construction of the Antler Creek at Woodmen Hills Golf Course. In 2003 Falcon Properties also obtained the Woodmen Hills Lending Trust 2003 Loan (current principal balance of \$2,214,000) for the purpose of financing certain natural gas, electric and telephone improvements in connection with the a portion of the Bennett Ranch residential development and the first phase of the Courtyards residential development.

A portion of the public infrastructure required to provide water and sewer services to the commercial property in Woodmen Hills was financed by the Woodmen Hills PFA, a Colorado nonprofit corporation formed as an instrumentality of the Woodmen Hills Metropolitan District, through the issuance of its Assessment Revenue Bonds, Series 1999A (current principal balance of \$3,922,000); and certain public infrastructure required for the development of the Bennett Ranch Property was financed by the Woodmen Hills PFA through the issuance of its Assessment Revenue Bonds, Series 1999B (current principal balance of \$226,000), Assessment Revenue Bonds, Series 2000A (paid off), Assessment Revenue Bonds, Series 2001A (paid off), Assessment Revenue Bonds, Series 2001B (current principal balance of \$502,000), Assessment Revenue Bonds, Series 2001C-1 (paid off), Assessment Revenue Bonds, Series 2001C-2 (current principal balance of \$7,074,000), Assessment Revenue Bonds, Series 2003A (current principal balance of \$3,822,000) and Assessment Revenue Bonds, Series 2003B (current principal balance of \$984,000). These bonds are payable solely from development assessments which Falcon Properties agreed to pay with respect to certain property owned by Falcon Properties in Woodmen Hills pursuant to assessment agreements entered into with the Woodmen Hills PFA, including, without limitation, the 1999A Assessment Agreement, the 1999B Assessment Agreement, the 2001B Assessment Agreement, the 2001C Assessment Agreement, the 2003A Assessment Agreement and the 2003B Assessment Agreement. Upon completion of the improvements financed with each series of such bonds, or in any event no later than such time as the series of bonds has been paid and discharged, the Woodmen Hills PFA is to convey its right, title and interest in and to the financed improvements to the Woodmen Hills Metropolitan District (the "District"). It is expected that a portion of these improvements may be dedicated by the District to the County as required by the District's Service Plan.

A second elementary school located in Meridian Ranch was financed by the Falcon School Building Authority through the issuance of Assessment Revenue Bonds, Series 2003 (current principal balance of \$336,890). These bonds are payable in part from assessments which Falcon Properties agreed to pay with respect to the property owned by it in Woodmen Hills pursuant to the Falcon School Building Authority Assessment Agreement.

Development of Public Infrastructure. All of the principal community infrastructure improvements have been constructed for Woodmen Hills Filings 1-10, encompassing 1,175 residential lots; Woodmen Hills Filings 11, encompassing 873 residential lots and the Falcon Town Center. A clubhouse/recreation center has been built and acquired by the District, and a second recreation center was completed in 2003. The water treatment plant, together with storage tanks and booster pumps, are operating, and the lift station and force

main have connected the community sewer system to the Paint Brush Hills WWTP described below. With the exception of the residential roads to be built as a part of the Courtyards development, all roads in Woodmen Hills Filings 1-7, 9 and 10 have been completed and dedicated to the appropriate governmental entity for ongoing maintenance, and all roads in Woodmen Hills Filings 8 and 11 have been completed and are awaiting acceptance of dedication. It is anticipated that the residential roads to be built as a part of the Courtyards development will be maintained by a homeowners association. The entryway and landscaping also have been completed. See also "Public Services" below.

Marketing and Sale of Residential Property. All of the 1,175 residential lots in the original Woodmen Hills have been sold. Approximately 1,413 families currently reside in Woodmen Hills.

Development of the first phase of Woodmen Hills Filing 11 (the Bennett Ranch Property) is completed. Approximately 285 of the 371 lots comprising the first phase of development of the Bennett Ranch Property have been sold. Of the 502 lots comprising the second phase of development of the Bennett Ranch Property 336 lots have been sold and approximately 100 homes currently are under construction. Of the 465 lots which are part of the Courtyards development 146 lots have been sold. The development of the Courtyards at Woodmen Hills in Woodmen Hills Filing 7 has commenced. Residential lots are being developed and marketed by Skywalk Development Corporation and sold by Woodmen Hills Realty Corp. to developers and builders (see "*Consulting Agreement*" and "*Woodmen Hills Realty Corp.*" below). Purchasers are required to pay \$10,000 per lot for District for water and sewer tap fees.

Approximately 75 acres of commercially zoned property, as well as approximately 5 acres of property which was not zoned commercial, have been re-zoned for 465 homes which constitute the Courtyards development.

Marketing and Sale of Commercial Property. All of the commercially zoned property in Woodmen Hills is located in Woodmen Hills Filing 7, encompassing approximately 34 acres. This property comprises the Falcon Town Center at Woodmen Hills site located at the intersection of Woodmen Road and McLaughlin Road, including property in all four quadrants of the intersection, at the southern end of Woodmen Hills. See also "Public Services - *Proposed Widening of Woodmen Road*" below.

In 1999 Safeway, Inc. purchased 22.31 acres of the Falcon Town Center site comprising the northeast quadrant of the intersection of Woodmen Road and McLaughlin Road. The parcel has been developed as a Safeway Superstore and shopping center with other retail stores and pads in accordance with a Declaration of Easements with Covenants and Restrictions Affecting Land which were recorded by Safeway, Inc. in connection with its purchase of the subject parcel. The Safeway store opened for business in March 2000. The site also includes a free-standing convenience store, filling station and car wash, as well as retail space adjoining the Safeway store, all of which is occupied.

In 2000 The State Bank - La Junta purchased 1.06 acres in the Falcon Town Center located on the southeast corner of the intersection of Woodmen Road and McLaughlin Road and purchased an additional .91 acres in 2004. This parcel is intended to be developed as a banking facility and built in the near future. A temporary facility currently is being operated on the site, and a car wash has been constructed next to the bank.

Also in 2000 Beckett Falcon Investments, LLC, purchased approximately 7.52 acres in the Falcon Town Center located in the southwest quadrant of the intersection of Woodmen Road and McLaughlin Road. The purchaser has sold portions of the property to (1) Kentucky Fried Chicken/A&W Restaurant (co-brand), which has constructed and is operating a restaurant on the site; (2) to Meineke Discount Mufflers which has constructed and is operating a service center on the site; and (3) the Shops at Falcon Town Center a retail center.

The Falcon Town Center at Woodmen Hills site was offered for sale by Falcon Town Center, LLP, as a commercial and retail development. A portion of the site was later rezoned to create the Courtyards development. Falcon Town Center, LLP was formed initially as a Colorado general partnership as of September 12, 1996, and converted to a Colorado limited liability partnership on September 14, 1998, for the purpose of owning and selling the commercial and industrial zoned land in Woodmen Hills. Falcon Town Center, LLP is owned by Falcon Properties (80%) and Benjamin I. Green (20%), and is managed by its partners. Falcon Town Center, LLP has given an exclusive contract to sell the commercial property in the Falcon Town Center to Woodmen Hills Realty Corp. See "*Woodmen Hills Realty Corp.*" below.

Competition. To the best knowledge of Falcon, several hundred five acre lots already exist in several developments within four miles of Woodmen Hills. Residential developments in the area include Falcon Hills, Paint Brush Hills to the northeast of Falcon Hills, consisting of five acre tracts; The Trails, located about four miles north of Woodmen Hills and containing approximately 193 two and one-half acre tracts at a price of approximately \$60,000 per lot; and the planned Falcon Heights development consisting of five acre tracts to be located along the north side of Falcon Highway approximately one mile east of Meridian Road. Falcon Heights is partially developed, and it is believed that the developer plans to develop and sell homes on the lots as opposed to selling the unfinished lots to homebuilders.

Meridian Ranch encompasses 2,650 acres of proposed residential development located immediately north of the Bennett Ranch development. Meridian Ranch is proposed to have 2,289 acres of residential development, a 15 acre park site, 48 acres of right-of-way, 70 acres for school sites, a 33 acre wastewater treatment facility, 121 acres of commercial development and 74 acres of drainage and detention area. The development of approximately 800 lots has been completed. Skywalk Development Corporation oversaw such development on a fee basis. The developer of Meridian Ranch currently sells developed lots to home builders. The price range of the homes in Meridian Ranch is similar to that within Woodmen Hills Filing 11, and is competitive with Woodmen Hills. See "*Consulting Agreement*" below.

Consulting Agreement. Falcon Properties has entered into a Consulting Agreement with Skywalk Development Corporation, a company controlled by Benjamin I. Green, the President of the Woodmen Hills Public Facilities Authority and a member of the Woodmen Hills Public Facilities Authority Board, the Vice President and director of the Woodmen Road Metropolitan District, the President and director of the Falcon School Building Authority and the President and director of the Falcon Regional Transportation Metropolitan District. According to the terms of the Consulting Agreement, the duties of Skywalk include: preparing a budget for the construction of the improvements which contains all costs related to and necessary for the construction and completion of the improvements as well as other project costs such as marketing and sales expenses; supervising and submitting financial information to appropriate parties as may be required; coordinating the platting of Woodmen Hills in accordance with the plans and specifications; negotiating, reviewing and obtaining construction bids; negotiating contracts and purchase orders for contractors, subcontractors, suppliers and materialmen; negotiating other contracts related to the purchase and sale of property in Woodmen Hills; coordinating advances under the Woodmen Hills Lending Trust Loan and other loans; and performing such additional duties as the parties may agree to in writing as well as all other services usually performed by parties providing construction management and project supervision. Skywalk also is serving as construction manager for the Woodmen Hills PFA on a fee basis and will serve as construction manager for the construction of the Master Improvements and lot specific improvements for the Bennett Ranch Property on a fee basis. Skywalk has waived such fees with respect to the development of Woodmen Hills Filings 9, 10 and 11 and the Courtyards, except that Skywalk was reimbursed \$103,500 for overhead from Woodmen Hills Filing 9, \$700,000 for Woodmen Hills Filing 11 and \$750,000 for the Courtyards.

In consideration for these duties, Skywalk receives a monthly fee of \$6,500 plus a \$3,500 monthly construction management fee from Falcon Properties. In addition, during the term of the Consulting Agreement, at such times as Falcon Properties is prepared to distribute cash to its partners, prior to such

distribution Falcon Properties is to pay to Skywalk an amount equal to 20% of the Net Distributable Cash (as defined in the Consulting Agreement) from the original Woodmen Hills project, and 50% of the Net Distributable Cash from the Bennett Ranch portion of the project. At such time as Falcon Properties is prepared to distribute its assets to its partners, prior to such distribution Falcon Properties is to pay to Skywalk an amount equal to 20% of the Net Liquidation Proceeds arising from the Project (as defined in the Consulting Agreement) and 50% of the Net Liquidation Proceeds arising from the Bennett Ranch portion of the project.

Skywalk also has developed the first phase of the neighboring Meridian Ranch development as discussed in "*Competition*" above.

Woodmen Hills Realty Corp. Woodmen Hills Realty Corp., which is controlled by Benjamin I. Green, has entered into agreements with Falcon Properties, Falcon Town Center and Skywalk which provide in material part that Falcon Properties and Falcon Town Center are to sell undeveloped lots to Skywalk (with certain major infrastructure being the obligation of Falcon Properties), and for payment to Woodmen Hills Realty of a sales commission. Skywalk has the obligation to contract for and complete all lot development work on such property. In accordance with the consulting agreement between Skywalk and Falcon Properties, Falcon Properties is committed to loan money to Skywalk to finance such improvements.

Woodmen Hills Realty acted as a consultant to the District and Falcon Properties in connection with Falcon Properties' acquisition of water rights from the Cherokee Metropolitan District, for which it was paid a commission by the seller, Falcon Properties, and the sale of a portion of such water rights by Falcon Properties to the District and its water enterprise. Woodmen Hills Realty was not paid a commission on the sale of the water to the District.

Nobility Homes, Inc., formerly Trail Ridge Homes, Inc. Elaine Wolf and Gerald Olesh, two of the principals of Falcon Properties, each owned a 50% in Trail Ridge Homes, Inc., which was formed for the purpose of buying finished lots from Skywalk Development Corporation, along with various other builders, and building homes thereon for resale. Trail Ridge Homes, Inc. discontinued selling homes to be constructed as of the end of June 1999, and delivered all houses which it had under construction by January 31, 2000. Trail Ridge Homes, Inc. resumed building homes in August of 2000. Trail Ridge Homes, Inc. discontinued building homes in 2003 and the business operation was acquired by Trail Ridge Homes at Woodmen Hills, LLC, an unrelated entity at which time it changed its name to Nobility Homes, Inc.

Public Services

Woodmen Hills Metropolitan District. In order to facilitate the construction and installation of public infrastructure for and the provision of certain public services to Woodmen Hills, Falcon Properties sponsored the creation of the Woodmen Hills Metropolitan District in 1995. The District currently encompasses all of Woodmen Hills.

Paint Brush Hills Wastewater Treatment Plant. In anticipation of Falcon Properties's development of Woodmen Hills in 1984 and 1985, Falcon Properties and the Paint Brush Hills Metropolitan District jointly financed the construction of the Paint Brush Hills Wastewater Treatment Plant (the "WWTP"). Each party owns a 50% interest in the WWTP and each acts as co-manager thereof. Falcon Properties has assigned its interest in the WWTP to the Woodmen Hills Metropolitan District. The WWTP provides the wastewater treatment services to the District and Woodmen Hills. An expansion of the capacity of the WWTP was completed for the benefit of the District.

Other Services. Woodmen Hills is located in unincorporated El Paso County, and many urban facilities and services such as police protection are readily available from the County. Electric service is provided by Mountain View Electric Association, natural gas service is provided by the City of Colorado

Springs and telephone service is provided by Qwest Communications. Trash removal is required to be privately contracted. Fire protection is provided by Falcon Fire Protection District, and public education is provided by Falcon School District No. 49. An elementary school has been constructed in Woodmen Hills.

Proposed Widening of Woodmen Road. Woodmen Road is being widened from two to four lanes from Powers Boulevard to Woodmen Hills and construction of this project is currently underway. The road widening project is a cooperative effort among the County, the City of Colorado Springs and certain landowners in the area, including Falcon Properties and a new special district called the Woodmen Road Metropolitan District has been formed to carry out the design, financing and construction of the project. The special district encompasses a portion of the Courtyards and the Bennett Ranch portion of the District. The final plat was approved by the Planning Commission and the County Commissioners and construction is in progress. The special district has a separate ad valorem property tax levy of 10 mills (one mill equals 1/10 of 1¢), platting fees of \$350 per lot and building permit fees of \$500 per lot. Another special district, the Falcon Regional Transportation Metropolitan District, also has been formed which made financial contributions to Woodmen Road Metropolitan District in addition to designing, financing and constructing other area roads.

Colorado Springs Airport. While Woodmen Hills is located only eight miles northeast of the Colorado Springs Airport, to date the flight patterns in and out of the airport do not provide for flights directly over the development. However, there can be no assurance that flight patterns will not change in the future thereby causing aircraft to fly directly over Woodmen Hills.

The Developer

General. The Woodmen Hills Development is being developed by Falcon Properties and Investments, LLP. Falcon Properties was formed initially as a Colorado general partnership on September 15, 1972, and was converted to a Colorado limited liability partnership on February 6, 1996.

Initially, the sole business of Falcon Properties was to hold title to the property comprising the Woodmen Hills mixed use development with a view toward selling such property. Falcon Properties originally moved toward positioning the project for sale in 1984 and 1985 with the formulation of an engineering plan and the drilling of water wells. In addition, Falcon Properties, in conjunction with Paint Brush Hills Metropolitan District, financed the construction of the Paint Brush Hills Wastewater Treatment Plant located northeast of the Woodmen Hills Development. The facility was built to service the wastewater needs of the Development once developed. Pursuant to the downturn in the economy in the late 1980's, Falcon Properties ceased all development efforts; however, encouraged by Falcon Properties's perception of strong residential real estate sales in the Colorado Springs area in 1995, Falcon Properties revived its efforts to sell the Woodmen Hills Development.

Ownership. The following table sets forth the holders of at least a 5% interest in Falcon Properties:

<u>Name</u>	<u>Percentage of Interest Owned</u>
53 Hyde Park, LLC	33.33%
Simon Marital Trust	19.13% ¹
Gerald Olesh	15.00%
Deanna Sue Simon Trustee	6.67%
Simon Family Trust	5.87% ¹

¹ Gerald Olesh is a Co-Trustee with Deanna Sue Simon for the Simon Marital Trust and the Simon Family Trust.

Management. The affairs of Falcon Properties are managed by Gerald Olesh, age 74, who has been a general partner since Falcon Properties' inception. Mr. Olesh received his BSBA from the University of Denver in 1952 and a MBA from the University of Denver in 1953. Mr. Olesh practiced as a certified public accountant from 1953-1970. Since 1970, Mr. Olesh has acted as a business consultant. He currently acts as the trustee for several family trusts. Since July 1987 and January 1993, respectively, he has been the Secretary/Treasurer and a director of FitVideo, Inc. and Today's Fitness, Inc. (both of which are presently inactive entities), privately held companies which produce and market fitness and therapy products. From August 1983 to August 1994, Mr. Olesh was a director of Apogee Robotics, Inc. Subsequent to Mr. Olesh's tenure as a director, Apogee filed for Chapter 11 bankruptcy protection in December 1994. Since March 1981, Mr. Olesh has been the Secretary/Treasurer and a director of Pathfinder Exploration, Inc., a privately held energy company. Since 1996 he has been the Secretary/Treasurer of Merlin Distribution, Inc.; since 1997 he has been the Secretary/Treasurer and a director of Nobility Homes, Inc., formerly Trail Ridge Homes, Inc., and the president of the company since 1998; since 1999 he has been the Secretary/Treasurer and a director of the Woodmen Hills Public Facilities Authority; since January 2000 he has been the Secretary/Treasurer and a director of Therapy Zone, Inc.; and since November 2001 he has been a director of the Falcon Regional Transportation Metropolitan District.

Financial Statements. The unaudited financial statements of Falcon Properties as of and for the years ended December 31, 2003 and 2002, as prepared by management, are appended to this Private Placement Memorandum.

Pending Litigation. Falcon Properties has been named as a defendant, together with URS Greiner Woodward-Clyde, Inc. ("URS"), in two lawsuits filed by several owners of property located outside the Woodmen Hills Development. The complaint alleges that Falcon Properties and URS are liable on various grounds for unspecified damages in connection with the increased migration of surface and ground water which allegedly occurred as the result of the development of the Woodmen Hills Development. URS performed various design and engineering services to Falcon Properties in connection with its development of Woodmen Hills, including the design of the surface and storm drainage facilities for the Development. Falcon Properties and URS have filed an answer to the complaint denying the claims made against them and asserting various affirmative defenses. Falcon Properties intends to vigorously defend the suits and believes that URS has the same intentions. Falcon Properties has referred the lawsuits to its insurance carrier, Zurich North America, which has assumed defense of the suits. One lawsuit was settled by the insurance carrier and one is still pending. No representation is made herein as to the merits of the claims made against Falcon Properties, the likely outcome of the lawsuit or the potential liability to Falcon Properties in the event the lawsuit ultimately is resolved adversely to them.

FORWARD LOOKING STATEMENTS

This Private Placement Memorandum contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Private Placement Memorandum, the words "estimate," "forecast," "intend," "expect" and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

LITIGATION

Except as disclosed, there is no litigation now pending or, to the knowledge of District officials responsible for the issuance of the Series 2004 Bonds, threatened which questions the validity of the Series 2004 Bonds or of any proceedings of the District taken with respect to the issuance or sale thereof.

NO RATING

The District has neither applied nor intends to apply to any rating service for a rating on the Series 2004 Bonds.

PLAN OF DISTRIBUTION

The Series 2004 Bonds are being offered and sold by Bathgate Capital Partners, for which it is to receive a fee equal to 3% of the principal amount of the Series 2004 Bonds. The right of the Placement Agent to receive compensation in connection with this offering is dependent upon the execution and delivery of the Series 2004 Bonds.

The Series 2004 Bonds are offered on a private placement basis only to "accredited investors" as defined in Regulation D promulgated under the Securities Act. In order to purchase Series 2004 Bonds, investors must be able and will be required to execute an Investment Letter in the form appended to this Private Placement Memorandum. See "LIMITED OFFERING; INVESTOR SUITABILITY."

CONTINUING DISCLOSURE UNDERTAKING

Pursuant to the requirements of Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) (the "Rule") promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the District will execute a Continuing Disclosure Undertaking pursuant to which it will undertake and agree for the benefit of the owners of the Series 2004 Bonds, including the Beneficial Owners, to periodically provide certain financial information, other operating data and notice of certain events regarding the District and the Series 2004 Bonds to nationally recognized municipal securities information repositories and to a Colorado information depository if such should hereafter be created. A copy of the Continuing Disclosure Undertaking is appended hereto.

EXEMPTION FROM REGISTRATION

Registration or qualification of the offer and sale of the Series 2004 Bonds (as distinguished from registration of the ownership of the Series 2004 Bonds) is not required under applicable federal or State of Colorado securities laws pursuant to exemptions from registration provided in such laws. THE DISTRICT ASSUMES NO RESPONSIBILITY FOR QUALIFICATION OR REGISTRATION OF THE SERIES 2004 BONDS FOR SALE UNDER THE SECURITIES LAWS OF ANY JURISDICTION IN WHICH THE SERIES 2004 BONDS MAY BE SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Series 2004 Bonds are subject to approval by Becker Stowe & Bieber LLC, Denver, Colorado, Bond Counsel, whose opinion is expected to be delivered in substantially the form appended hereto. Certain legal matters will be passed upon for the District by its general counsel, Susemihl, McDermott & Cowan, P.C., Colorado Springs, Colorado. Becker Stowe & Bieber LLC, also is serving as special counsel to the District with regard to disclosure matters.

TAX MATTERS

In the opinion of Becker Stowe & Bieber LLC, Bond Counsel, to be delivered at the time of original issuance of the Series 2004 Bonds, subject to the condition that the District comply with certain covenants made to satisfy pertinent requirements of the Code, under existing laws, regulations, rulings and judicial decisions, interest paid by the District on the Series 2004 Bonds (which for purposes of this section includes both stated interest on the Series 2004 Bonds and any original issue discount properly allocable to the owner of a Series 2004 Bond) is excludable from gross income of the recipients thereof for federal income tax purposes and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel observes, however, that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Further, interest on the Series 2004 Bonds is exempt from State income tax. Any amounts received as Developer Supplemental Payments are not excludable from the gross income of the recipients thereof for federal income tax purposes.

The Code imposes various restrictions, conditions and requirements relating to the excludability from gross income for federal income tax purposes of interest on obligations such as the Series 2004 Bonds. The District has covenanted to comply with certain requirements designed to assure that interest on the Series 2004 Bonds will not lose its excludability from gross income for federal tax purposes. Failure to comply with these covenants may result in interest on the Series 2004 Bonds losing its excludability from gross income from the date of issuance of the Series 2004 Bonds. The opinion of Bond Counsel assumes compliance with such covenants.

As stated above, in the opinion of Bond Counsel, any original issue discount on a Series 2004 Bond that is properly allocable to an owner thereof will be excludable from gross income for federal income tax purposes to the same extent as the stated interest on the Series 2004 Bonds. The original issue discount would be apportioned among the original and succeeding owners of the Series 2004 Bonds on the basis of a formula involving the compounding of interest. Any gain realized by an owner from a sale, exchange, payment or redemption of a Series 2004 Bond in excess of the adjusted basis of the owner would be treated as a taxable gain from the sale or exchange of such Series 2004 Bond. Prospective purchasers of the Series 2004 Bonds should consult with their own tax advisors regarding this matter.

Although Bond Counsel will render an opinion that interest paid by the District on the Series 2004 Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Series 2004 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Purchasers of the Series 2004 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, and certain recipients of Social Security or Railroad Retirement benefits, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Series 2004 Bonds. Bond Counsel expresses no opinion regarding any such consequences.

The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Series 2004 Bonds, and Bond Counsel expresses no opinion as of any date subsequent thereto or with respect to any pending legislation.

Prospective purchasers of the Series 2004 Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Series 2004 Bonds.

INDEPENDENT AUDITOR

The financial statements of the District as of and for the year ended December 31, 2002 have been audited by Robert R. Bressan, Certified Public Accountant, Colorado Springs, Colorado, as set forth in his reports thereon, and are appended to this Private Placement Memorandum in reliance upon the expertise of Mr. Bressan in accounting and auditing.

The financial statements of the District as of and for the year ended December 31, 2003 have been audited by Jaspers + Hall, P.C., Certified Public Accountants, Colorado Springs, Colorado, as set forth in their reports thereon, and are appended to this Private Placement Memorandum in reliance upon the expertise of Jaspers + Hall, P.C. in accounting and auditing.

APPROVAL OF PRIVATE PLACEMENT MEMORANDUM

The preparation of this Private Placement Memorandum and its distribution have been authorized by the District Board. The Private Placement Memorandum has been duly approved by the District Board as of the date on the cover page hereof. This Private Placement Memorandum is not to be construed as an agreement or contract between the District and the purchasers or holders of any Series 2004 Bond.

**WOODMEN HILLS METROPOLITAN DISTRICT, EL PASO
COUNTY, COLORADO, ACTING BY AND THROUGH ITS
WATER AND WASTEWATER ENTERPRISE**

By: /s/ William C. Hooper
President

APPENDIX A

THE LOCAL ECONOMY

The following information is provided to give prospective investors an overview of the general economic conditions in the area within which the District is located. The statistics presented below have been obtained from the sources indicated and represent the most current information available from such sources. The statistics have not been adjusted to reflect economic trends, notably inflation. Such information is not to be relied upon as a representation or guarantee of the District or the Placement Agent.

Overview

Colorado Springs is generally considered to be a desirable place in which to live and work. The economy is reasonably well diversified and primarily supported by light manufacturing, military and tourism. The light manufacturing has been dominated by the high technology industry and therefore has suffered recent cutbacks and closures. Major employers in the area are set forth in "Employment" below. The major military establishments located in the area include Fort Carson, Peterson Air Force Base, Schriever Air Force Base, the United States Air Force Academy, the United States Air Force Space Command and the North American Aerospace Defense Command (NORAD).

Population

The following table sets forth population statistics for the City of Colorado Springs, El Paso County and the State of Colorado since 1960.

Population Estimates

<u>Year</u>	<u>Colorado Springs</u>	<u>El Paso County</u>	<u>Colorado</u>
1960	70,194	143,742	1,753,947
1970	135,517	235,972	2,209,596
1980	215,150	309,424	2,889,964
1990	280,430	397,014	3,294,473
2000	361,215	520,572	4,335,540
2001	369,853	533,526	4,441,377
2002	373,328	541,491	4,512,400
2003	377,006	550,478	4,550,688

Sources: U.S. Department of Commerce, Bureau of the Census, *Census of Population and Housing*; and the Colorado Department of Local Affairs, Division of Local Government, Demographic Section

Age Distribution

The following table sets forth a comparative age distribution profile for El Paso County, the Colorado Springs metropolitan area, the State and the nation as of January 1, 2003.

Age Distribution as of January 1, 2003

<u>Age Groups</u>	<u>El Paso County</u>	<u>Colorado Springs Metropolitan Area</u>	<u>State of Colorado</u>	<u>United States</u>
0-23	27.3%	26.2%	25.3%	25.2%
18-24	10.4	9.8	9.8	9.8
25-34	13.7	14.6	14.4	13.3
35-49	24.5	24.3	24.4	22.8
50+	24.1	25.1	26.1	28.9

Source: *Sales & Marketing Management: Annual Survey of Buying Power, 2003*

Income

The following tables set forth median household effective buying income ("EBI") and the percentage of households by EBI groups for the Colorado Springs metropolitan area, El Paso County, the State and the nation for the past five years. EBI, a classification developed by *Sales and Marketing Management* to distinguish it from other sources reporting income statistics, is defined as money income (as determined by *Sales and Marketing Management*, less personal tax and nontax payments, resulting in a figure often referred to as "disposable" or "after-tax" income. 2003 and 2002 EBI is computed as a derivative of household income, with the correspondence between before-tax and after-tax income based on a three-year combination of Current Population Survey data. Income and all income-related fields for 1998-2001 are benchmarked to the 1990 Census.

Median Household Effective Buying Income

<u>As of January 1</u>	<u>Colorado Springs Metropolitan Area</u>	<u>El Paso County</u>	<u>Colorado</u>	<u>United States</u>
1998	\$31,624	\$31,624	\$33,890	\$34,618
1999	32,838	32,838	37,091	35,377
2000	34,714	34,714	37,335	37,233
2001	37,024	37,024	39,741	39,129
2002	42,042	42,042	44,050	38,365
2003	43,129	43,129	43,510	38,035

Source: *Sales and Marketing Management: Annual Survey of Buying Power, 1998-2003*

The following table sets forth a recent breakdown of households by EBI groups for the Colorado Springs metropolitan area, El Paso County and the State.

Percent of Households by Effective Buying Income Groups as of January 1, 2003

<u>EBI Group</u>	<u>Colorado Springs Metropolitan Area</u>	<u>El Paso County</u>	<u>State of Colorado</u>
Less than \$20,000	15.4%	15.4%	16.8%
\$20,000 - \$34,999	22.5	22.5	21.6
\$35,000 - \$49,999	22.2	22.2	20.4
\$50,000 and over	39.9	39.9	41.2

Source: *Sales and Marketing Management: Annual Survey of Buying Power, 2003*

The following table sets forth recent annual per capita personal income levels of El Paso County, the State and the nation.

Per Capita Personal Income in Current Dollars

<u>Year</u>	<u>El Paso County</u>	<u>State of Colorado</u>	<u>United States</u>
1998	\$25,876	\$28,784	\$26,883
1999	27,387	30,492	27,939
2000	29,593	33,371	29,847
2001	29,712	34,003	30,527
2002	29,903	33,723	30,906
2003	not available	34,283	31,632

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Retail Sales

The following table sets forth recent retail sales figures for the City of Colorado Springs, El Paso County and the State of Colorado as reported by the Colorado Department of Revenue.

Retail Sales

<u>Year</u>	<u>Colorado Springs</u>		<u>El Paso County</u>		<u>Colorado</u>	
	<u>Retail Sales</u>	<u>Change</u>	<u>Retail Sales</u>	<u>Change</u>	<u>Retail Sales</u>	<u>Change</u>
1998	\$7,127,525,124	--	\$ 7,789,764,414	--	\$ 84,826,081,299	--
1999	7,437,590,409	4.4%	8,121,405,655	4.3%	90,455,587,551	6.6%
2000	8,281,815,672	11.4	9,185,166,859	13.1	101,008,296,357	11.7
2001	8,450,553,869	2.0	9,549,844,158	4.0	102,633,648,302	1.6
2002	8,624,447,996	2.1	9,839,567,644	3.0	103,777,621,474	1.1
2003	9,129,067,487	5.9	10,403,169,108	5.7	105,420,075,459	1.6

Source: State of Colorado, Department of Revenue, *Sales Tax Statistics*

Public School Enrollment

The following table presents a five year enrollment history for selected school districts serving El Paso County.

School District Fall Enrollment

<u>School District</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Change From 1999 to 2003</u>
Falcon School District No. 49 (serving the District)	5,457	6,029	6,915	7,854	8,660	58.7%
Harrison School District No. 2	10,449	10,882	11,053	10,810	10,944	4.7%
Widefield School District No. 3	8,468	8,639	8,671	8,606	8,475	0.1%
Fountain School District No. 8	4,926	5,125	5,195	5,545	5,879	19.3%
Colorado Springs School District No. 11	31,586	32,699	32,808	32,368	31,840	0.8%
Cheyenne Mountain School District No. 12	3,952	4,041	4,191	4,342	4,506	14.0%
Academy School District No. 20	16,775	17,628	18,137	18,698	19,083	13.8%
Peyton School District No. 23JT	665	711	716	686	693	4.2%
Lewis-Palmer School District No. 38	4,333	4,610	4,889	5,179	5,370	23.9%

Source: Colorado Department of Education

Employment

The following tables set forth historical labor force averages and the most recent employment statistics by industry for the Colorado Springs Metropolitan Statistical Area ("Colorado Springs MSA") and the State. As reported by the Greater Colorado Springs Economic Development Corporation, there have been approximately 8,500 primary job layoffs in Colorado Springs from 2001 to date, which has resulted in a 2004 average annual unemployment rate of 5.2% and an unemployment rate as of September 30, 2004 of 4.67%.

Civilian Labor Force Averages - All (labor force expressed thousands)

Year	Colorado Springs MSA ¹			Colorado ¹		
	Labor Force	Percent Change	Percent Unemployed	Labor Force	Percent Change	Percent Unemployed
1998	253.7	3.5%	4.5%	2,241.8	4.3%	3.8%
1999	258.8	2.0	3.3	2,264.1	1.0	2.9
2000	259.5	0.3	3.2	2,351.2	3.8	2.8
2001	263.9	1.7	4.4	2,379.1	1.2	3.7
2002	272.7	3.3	6.0	2,437.4	2.5	5.7
2003	282.7	3.7	6.4	2,479.5	1.7	6.0
2004	291.7	3.2	5.2	2,560.8	3.3	4.6

¹ Not seasonally adjusted.

Source: U. S. Department of Labor, Bureau of Labor Statistics

Civilian Labor Force Averages - Non-Farm Employment (labor force expressed in thousands)

Year	Colorado Springs MSA ¹		Colorado ¹	
	Labor Force	Percent Change	Labor Force	Percent Change
1998	224.1	3.0%	2,057.0	3.9%
1999	234.3	4.6	2,131.8	3.6
2000	242.6	3.5	2,212.9	3.8
2001	246.4	1.6	2,231.9	0.9
2002	244.3	(0.9)	2,189.4	(1.9)

¹ Not seasonally adjusted.

Source: U. S. Department of Labor, Bureau of Labor Statistics

The following table sets forth the number of individuals employed within selected industries in El Paso County covered by unemployment insurance. Prior to 2001, employment data was reported using the Standard Industrial Classification ("SIC") codes. Beginning in 2001, such data is being reported using North American Industrial Classification System ("NAICS") codes. As a result, employment data for 2001 (currently available only through the second quarter) is not directly comparable to prior years and therefore is not shown in the table.

Average Number of Employees Within Selected Industries in El Paso County

<u>Industry¹</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Agriculture/Forestry/Fisheries	1,530	1,699	1,772	1,829	1,959
Mining	94	99	79	79	89
Construction	11,867	12,289	12,807	13,793	15,370
Manufacturing	25,070	26,246	27,040	27,700	28,761
Transportation/Communication/Public Utilities	11,241	11,840	11,581	13,378	13,526
Wholesale Trade	5,503	6,170	6,635	6,683	7,092
Retail Trade	41,716	42,352	43,230	44,647	45,716
Finance/Insurance/Real Estate	10,302	11,372	12,403	13,437	13,699
Services	63,091	66,529	69,423	71,950	74,454
Nonclassifiable	10	6	5	3	6
Government	<u>33,158</u>	<u>34,164</u>	<u>35,335</u>	<u>36,346</u>	<u>37,068</u>
Total	<u>203,572</u>	<u>212,760</u>	<u>220,305</u>	<u>229,842</u>	<u>237,734</u>

¹ Information provided herein reflects only those employers who are subject to state unemployment insurance law.

Source: Colorado Department of Labor & Employment, Labor Market Information

Average Number of Employees Within Selected Industries in El Paso County in 2001-04 (NAICS Classifications)

<u>Industry¹</u>	<u>Annual 2001</u>	<u>Annual 2002</u>	<u>Annual 2003</u>	<u>1st Quarter 2004</u>
Agriculture, Forestry, Fishing, Hunting	262	223	170	262
Mining	95	82	107	111
Utilities	515	628	575	561
Construction	15,745	14,998	14,757	14,255
Manufacturing	25,209	22,280	20,497	19,716
Wholesale Trade	6,348	6,056	5,862	5,860
Retail Trade	27,890	27,648	27,818	27,904
Transportation and Warehousing	3,483	3,417	3,309	3,119
Information	14,205	12,671	10,412	10,397
Finance and Insurance	11,279	12,067	12,320	11,998
Real Estate, Rental and Leasing	4,059	4,063	4,120	4,146
Professional and Technical Services	17,714	16,647	16,754	17,476
Management of Companies and Enterprises	1,071	866	903	913
Administrative and Waste Services	15,902	15,274	15,726	15,122
Educational Services	2,970	3,128	3,245	3,321
Health Care and Social Assistance	18,881	19,252	19,575	19,728
Arts, Entertainment and Recreation	3,649	3,575	3,516	3,195
Accommodation and Food Services	22,919	23,015	23,148	21,988
Other Services	9,952	9,942	9,835	9,539
Nonclassifiable	2	3	3	19
Government	<u>37,949</u>	<u>39,271</u>	<u>39,855</u>	<u>40,288</u>
Total	<u>240,099</u>	<u>235,106</u>	<u>232,507</u>	<u>229,918</u>

¹ Information provided herein reflects only those employers who are subject to State unemployment insurance laws.

Source: Colorado Department of Labor and Employment

The following is a list of major employers in the Colorado Springs area. No independent investigation has been made of and no representation is made herein as to the financial condition of the private employers listed below or the likelihood that any of the following employers will maintain their status as major employers in the area. In addition, many of the private employers shown below have had significant layoffs in the past two years as discussed above in this section, and many military personnel have been deployed overseas recently in response to hostilities in the Middle East. It is possible that there are other large employers in the area which are not included in the table.

Top 25 Employers in the Colorado Springs Area¹

<u>Company</u>	<u>Type pf Business</u>	<u>Number of Employees</u>
Memorial Hospital	Public Hospital	3,566
El Paso County School District #11	Public Schools	3,440
Penrose-St. Francis Health Services	Hospital/Health Care Provider	2,944
El Paso County School District #20	Public Schools	2,563
Hewlett Packard	Computer Hardware	2,200
WorldCom	Telecommunications	2,000
Atmel Corporation	Digital Circuits/Analog Products	2,000
Colorado Springs Utilities	Public Utility	1,800
El Paso County School District #2	Public Schools	1,517
The Broadmoor Hotel	Hotel/Resort	1,500
MCI	Long Distance Telephone Services	1,350
Focus on the Family	Christian Nonprofit	1,272
United Services Automobile Association	Insurance Services	1,150
Checks Unlimited	Mail-order Checks	1,100
El Paso County School District #3	Public Schools	1,030
Sanmina SCI (Plant #12)	Manufacturing	1,030
Ford Credit Regional Service Center	Collections Services	1,000
El Paso County School District #49	Public Schools	1,000
Progressive Insurance Company	Insurance Services	965
IR Security & Safety	Manufacturing	900
T-Mobile	Wireless Services	900
Honeywell	Hardware Maintenance	900
Agilent Technologies Inc.	Communications	900
Lockheed Martin Mission Systems	Defense Contractor	879
Current Inc.	Mail Order Catalog Sales	875

¹ This list does not include civilian employees of military installations located in or around Colorado Springs which include Fort Carson, Peterson Air Force Base, Schriever Air Force Base, NORAD and the United States Air Force Academy.

Source: Greater Colorado Springs Economic Development Corporation

Construction Trends

Set forth in the following table are recent historical building permit statistics for new structures in the Pikes Peak region.

**Building Permit Activity in the Pikes Peak Region
(New Buildings and Structures)**

<u>Year</u>	<u>Single Family Detached Homes</u>		<u>Other Housekeeping Residential Buildings</u>		<u>Other Buildings and Structures¹</u>	
	<u>Permits</u>	<u>Valuation</u>	<u>Permits</u>	<u>Valuation</u>	<u>Permits</u>	<u>Valuation</u>
1998	4,016	\$468,202,078	283	\$ 53,654,555	470	\$173,659,992
1999	4,360	523,471,449	308	74,750,170	508	240,248,115
2000	4,659	570,198,702	398	123,978,942	295	260,075,597
2001	4,925	591,142,633	472	181,429,629	231	163,350,883
2002	4,466	542,584,562	621	211,185,243	294	159,332,826
2003	4,356	576,923,765	545	84,485,891	369	214,726,404
2004 ²	3,891	536,685,848	537	124,317,511	152	53,384,372

¹ Excludes swimming pools and signs, as well as certain accessory buildings such as storage sheds.

² Through September 30, 2004.

Source: Pikes Peak Regional Building Department

Foreclosure Activity

Set forth in the following table are the number of foreclosures filed in El Paso County over the past five years.

Foreclosures in El Paso County

<u>Year</u>	<u>Foreclosures Filed</u>	<u>Change From Prior Year</u>
1998	827	--
1999	959	16.0%
2000	1,003	4.6
2001	1,165	16.2
2002	1,594	58.9
2003	1,932	16.7
2004 ¹	1,684	--

¹ Through October 25, 2004.

Source: El Paso County Public Trustee's Office

Transportation

Colorado Springs has a comprehensive transportation system which includes Colorado's second largest airport. The area has about 20 commercial truck carrier operations, rail service along the important north-south Front Range corridor providing connections to east and west markets, and a fully developed and well maintained federal, State and local highway system.

Colorado Springs Airport. The Colorado Springs Airport is the second largest airport in Colorado and is served by 11 major national and regional airlines. This new airport built in 1994 has approximately 50 arrivals and 50 departures each day with nonstop service to major hubs such as Los Angeles, Chicago, Denver, Atlanta, St. Louis, Salt Lake City, Minneapolis, Dallas, Houston, Phoenix and Cincinnati.

Additionally, there are direct flights (one stop, same plane) to over 30 other cities daily. Colorado Springs Airport is a major western shipping center and cargo is transported by Federal Express and Airborne. The Airport has 4,200 acres of land for development, 600 having direct runway access.

Highways. Interstate Highway 25 runs north/south through the central west portion of Colorado Springs adjacent to the central business district, while the nearest east/west interstate highway, I-70, is located in the Denver metropolitan area. Colorado State Highway 83 is located in northern portion of city, State Highway 94 is located in eastern portion of city and State Highway 115 runs north/south and bisects the city. U.S. Highway 24 runs east/west and bisects the city, and U.S. Highway 85/87 is located in southern portion of city.

Rail System. Colorado Springs is served by Burlington Northern Santa Fe and Union Pacific, which is the major U.S. north-south rail system that stretches from Houston, Texas, north to Canada coming through both Colorado Springs and Denver. This route transects the major east/west routes, which serve the rest of the nation.

APPENDIX B

DISTRICT FISCAL YEAR 2003 AUDITED FINANCIAL STATEMENTS

APPENDIX C

DISTRICT FISCAL YEAR 2002 AUDITED FINANCIAL STATEMENTS

APPENDIX D

DISTRICT FISCAL YEAR 2001 AUDITED FINANCIAL STATEMENTS

APPENDIX E
DISTRICT FISCAL YEAR 2004 BUDGET

APPENDIX F

**PROJECTED CASH FLOWS OF THE RECREATIONAL FACILITIES ENTERPRISE
FOR THE PERIOD OF JANUARY 1, 2005 TO DECEMBER 31, 2024**

APPENDIX G

**FALCON PROPERTIES FISCAL YEAR 2003 AND 2002
UNAUDITED FINANCIAL STATEMENTS**

APPENDIX H

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the Woodmen Hills Metropolitan District, El Paso County, Colorado, Acting By and Through its Water and Wastewater Enterprise, a quasi-municipal corporation and political subdivision of the State of Colorado (the "Issuer"), in connection with the issuance by the Issuer of its Water and Wastewater Enterprise Refunding Revenue Bonds, Series 2004, in the aggregate principal amount of \$12,710,000 (the "Bonds"). The Bonds are being issued pursuant a resolution adopted by the Board of Directors of the Issuer on November 18, 2004 (the "Authorizing Document").

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

SECTION 2. Definitions. In addition to the definitions set forth in the Authorizing Document or parenthetically defined herein which apply to any capitalized terms used in this Disclosure Undertaking, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Dissemination Agent" shall mean, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Undertaking.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repositories
DPC Data Inc.
Standard & Poor's J. J. Kenny Repository
Interactive Data

"Participating Underwriter" shall mean any underwriter of the Bonds required to comply with the Rule in connection with an offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the State of Colorado as a state information depository for the purpose of the Rule. As of the date of this Disclosure Undertaking, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than nine (9) months following the end of each fiscal year of the Issuer, commencing nine (9) months following the end of the Issuer's fiscal year ending December 31, 2004, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking. Not later than five (5) business days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Undertaking; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the Municipal Securities Rulemaking Board (the "MSRB") and to the State Repository, if any, in substantially the form attached as Exhibit "A".

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Issuer) file a report with the Issuer certifying the Annual Report has been provided pursuant to this Disclosure Undertaking, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) A copy of the Issuer's annual financial statements prepared in accordance with generally accepted accounting principles audited by a firm of certified public accountants. If audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Annual Report and audited financial statements will be provided when and if available.

(b) An update of the information contained in the Private Placement Memorandum under the headings "SECURITY FOR THE SERIES 2004 BONDS - Historical and Budgeted Net Revenues and Debt Service Coverage," "THE DISTRICT - Debt Structure - Existing Obligations" and "THE SYSTEMS - Water System Financial Information - Wastewater System Financial Information."

(c) Any of the information specified in (a) or (b) of this Section 4 may be incorporated by specific reference to documents previously provided to each of the Repositories and to a State Repository, if any, or to the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such document incorporated by reference.

SECTION 5. Reporting of Significant Events. The Issuer shall provide or cause to be provided, in a timely manner, to the MSRB and the State Repository, if any, notice of any of the following events with respect to the Bonds, if such event is material:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (g) Modifications to rights of bondholders;
- (h) Bond calls;
- (i) Defeasances;
- (j) Release, substitution or sale of property security repayment of the Bonds; or
- (k) Rating changes.

SECTION 6. Termination of Reporting Obligation. The respective obligations of the Issuer under this Disclosure Undertaking shall terminate upon the earliest of: (i) the date of legal defeasance, prior redemption or payment in full of all of the Bonds; (ii) the date that the Issuer shall no longer constitute an "obligated person" within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist the Issuer in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, without the consent of the Owners of the Bonds, if such amendment or waiver does not, in and of itself, cause the undertakings herein (or action of any Participating Underwriter in reliance on the undertakings herein) to violate the Rule, but taking into account any subsequent change in or official interpretation of the Rule. The Issuer will provide notice of such amendment or waiver to the Repository.

SECTION 9. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to what which is specifically required by this Disclosure Undertaking, the Issuer shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Undertaking, any Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an event of default under the Authorizing Document, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and the Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

EXHIBIT "A"

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Woodmen Hills Metropolitan District, El Paso County, Colorado, Acting By and Through its Water and Wastewater Enterprise

Name of Bond Issue: Water and Wastewater Enterprise Refunding Revenue Bonds, Series 2004, in the aggregate principal amount of \$12,710,000.

Date of Issuance: November __, 2004

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-captioned Bonds as required by the Continuing Disclosure Undertaking executed on December 5, 2002, by the Issuer. The Issuer anticipates that the Annual Report will be filed by _____.

APPENDIX I

FORM OF OPINION OF BOND COUNSEL

BECKER STOWE & BIEBER LLC
DENVER, COLORADO

We have acted as bond counsel in connection with the issuance by Woodmen Hills Metropolitan District, El Paso County, Colorado, acting by and through its Water and Wastewater Enterprise (the "District"), of its Water and Wastewater Enterprise Refunding Revenue Bonds, Series 2004, dated November 19, 2004, in the aggregate principal amount of \$12,710,000 (the "Bonds").

The Bonds mature on the dates, are subject to redemption, bear interest at the rates and are transferable and payable in the manner and subject to the conditions and limitations provided in the resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District.

The Bond Resolution provides that the Bonds shall be special, limited obligations of the District payable solely from and secured by an irrevocable lien on the revenues to be derived by the District from the operation of a Water System (as defined in the Bond Resolution) comprising the Water and Wastewater Enterprise of the District, after deduction of operation and maintenance costs (the "Net Revenues"), which lien is subordinate and junior to the lien thereon of certain other outstanding obligations of the District.

An officer of the District responsible for issuing the Bonds has executed a certificate (the "Tax Compliance Certificate") stating the reasonable expectations of the District as of the date of issue as to future events which are material for purposes of Sections 103, 148 and 265(b) of the Internal Revenue Code of 1986, as amended (the "Code"). In the Bond Resolution and the Tax Compliance Certificate, the District has made certain covenants to comply with the requirements of the Code that must be satisfied subsequent to the issuance of the Bonds for the interest thereon to be, or continue to be, excluded from gross income for federal income tax purposes. In the Bond Resolution, the District has designated the Bonds as "qualified tax-exempt obligations" under Section 265(b) of the Code.

In our capacity as bond counsel, we have examined the Constitution and laws of the State of Colorado, a certified copy of the record of proceedings of the Board of Directors of the District taken preliminary to the issuance of the Bonds, including the Bond Resolution, the certificates delivered by the District on the date of delivery of the Bonds and such other documents as we deemed necessary in order to render this opinion. As to questions of fact material to our opinion, we have relied upon the representations of the District contained in the Bond Resolution and in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing examination, it is our opinion that:

1. The Bonds have been duly authorized, executed and delivered under the Constitution and laws of the State of Colorado now in force.
2. The Bonds are valid and binding special, limited revenue obligations of the District, acting by and through its Water and Wastewater Enterprise, enforceable according to their terms except to the extent such enforcement is limited by the bankruptcy laws of the United States of America, by the reasonable

exercise of the sovereign police power of the State of Colorado and by the exercise of the powers delegated to the United States of America by the federal Constitution.

Based upon the foregoing examination and our review of the Code and the regulations and rulings thereunder, and of the Tax Compliance Certificate, and assuming the accuracy of the Tax Compliance Certificate and continuing compliance by the District with the covenants and representations contained in the Bond Resolution and the Tax Compliance Certificate, it is also our opinion that:

1. Under the laws and regulations of the United States of America as presently enacted and construed, interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax, although such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Failure to comply with requirements of the Code that must be satisfied subsequent to the issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds.

2. Interest on the Bonds is exempt from Colorado income taxes under the laws of the State of Colorado as presently enacted and construed.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with "excess passive investment income," individual recipients of social security or railroad retirement benefits, foreign corporations engaged in a trade or business in the United States and taxpayers who may be deemed to have incurred or continued debt to purchase or carry such obligations. We express no opinion herein with respect to such consequences. Purchasers of the Bonds are advised to consult their own tax advisors as to such consequences.

As bond counsel, we are passing only upon those matters set forth in this opinion. We express no opinion herein with respect to the creditworthiness or condition, financial or otherwise, of the District, or with respect to the accuracy or completeness of any documents prepared or used or statements made in connection with the offering or sale of the Bonds.

APPENDIX J

FORM OF INVESTMENT LETTER

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE "BLUE SKY" OR SECURITIES LAWS. THE BONDS MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR OTHERWISE DISPOSED OF EXCEPT IN COMPLIANCE WITH APPLICABLE FEDERAL AND STATE SECURITIES LAWS AND IN COMPLIANCE WITH TRANSFER RESTRICTIONS CONTAINED IN THE AUTHORIZING BOND RESOLUTION AND THE BONDS.

**WOODMEN HILLS METROPOLITAN DISTRICT
ACTING BY AND THROUGH ITS WATER AND WASTEWATER ENTERPRISE
EL PASO COUNTY, COLORADO
\$12,710,000 WATER AND WASTEWATER ENTERPRISE REVENUE
REFUNDING BONDS, SERIES 2004**

INVESTMENT LETTER

If and when accepted, this Investment Letter, when executed below, shall constitute an offer to purchase the captioned bonds (the "Bonds") in the principal amount herein set forth. By execution hereof, the prospective investor acknowledges that the parties to this financing, including, without limitation, the Woodmen Hills Metropolitan District, American National Bank, Bathgate Capital Partners, Becker Stowe & Bieber LLC and Susemihl, McDermott & Cowan, P.C., are relying upon the accuracy and completeness hereof in complying with their obligations under applicable securities laws. The purpose of this Investment Letter is to assure that each prospective investor meets the suitability standards established with respect to this financing.

The prospective investor hereby represents the following:

(1) The prospective investor is an "accredited investor" within the meaning of Regulation D of the Securities Act of 1933, as amended (the "Securities Act"); the prospective investor is 21 years of age or older (if investor is an association, then each of its members if of such age); and if the prospective investor is a partnership, joint venture, corporation or trust, neither is nor was organized or reorganized for the specific purpose of acquiring the Bonds. Specifically, the prospective investor comes within the following categories of that definition (check the appropriate categories and complete the blanks as applicable):

- (a) An institutional investor within the meaning of Rule 501(a)(1) of Regulation D of the Securities Act, with total assets in excess of \$5,000,000.
- (b) A private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940.
- (c) An organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, with total assets in excess of \$5,000,000.

- (d) A natural person whose net worth (or whose joint net worth when combined with that of my spouse) exceeds \$1,000,000.
- (e) A natural person who had individual income in excess of \$200,000 in each of the last two years and/or such person and spouse have had combined income of \$300,000 in each of the past two years and reasonably expect such income to be at the same level in the current year.
- (f) A trust with in excess of \$5,000,000 in assets and not formed for the specific purpose of participating in this offering and managed by a sophisticated investor.
- (g) An entity all of whose equity owners are accredited investors.

(2) The prospective investor has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the prospective investment.

(3) The prospective investor is acquiring the Bonds solely for investment for the prospective investor's own account, and not with a view to distributing the Bonds to others.

(4) The prospective investor has read the Private Placement Memorandum relating to the offering of the Bonds, is familiar with and understand the terms and risks of the prospective investment, including specifically, but without limitation, the fact that the lien of the Bonds on the Net Revenues pledged to the payment of the Bonds is subordinate and junior to the lien thereon of several outstanding obligations of the issuer of the Bonds as discussed in the Private Placement Memorandum, and has not relied upon any other information or representation in connection with this matter.

(5) The prospective investor has had an opportunity to review all the pertinent facts concerning the prospective investment and to obtain any additional information which might be requested, to the extent possessed or obtainable without unreasonable effort and expense, in order to verify the accuracy of the information contained in the Private Placement Memorandum.

(6) The prospective investor understands that the Bonds have not been registered under the Securities Act in reliance upon the exemption from the registration requirements under the Securities Act, and that the Bonds have not been registered under any blue sky or state securities laws; and therefore that the prospective investor must bear the economic risk of the investment for an indefinite period of time since the Bonds may not be sold, transferred or assigned unless they are registered under the Securities Act and such state blue sky or securities laws or an exemption from registration is available and the transfer complies with other applicable provisions of the Securities Act and applicable state blue sky or securities laws.

(7) The prospective investor understands that the Bonds are additionally subject to restrictions on transfer as provided in the Resolution authorizing the issuance of the Bonds, and that all Bonds and documents representing the Bonds will contain or be endorsed with the following, or a substantially equivalent restrictive legend:

"This Bond is transferable only to an "accredited investor" as that term is defined under Sections 3(b) and (4)(2) of the Securities Act of 1933, as amended, by regulation adopted thereunder by the U.S. Securities and Exchange Commission, as more fully provided herein."

(8) The prospective investor will not sell the Bonds being purchased hereunder without registration under the Securities Act or an exemption therefrom.

(9) If the prospective investor is an individual, the prospective investor has adequate means of providing for his or her current needs and personal contingencies and has no need for liquidity in this investment.

(10) You agree to keep confidential all of the above and any other information provided by or on behalf of the undersigned except to the extent that you are required to release such information to third parties for the purposes of establishing the exemption of the Bonds from registration under the federal and state securities laws, rules and regulations.

(11) The funds provided for this investment are either separate property, community property over which the signatory(ies) hereto has the right of control or are otherwise funds as to which the undersigned has the sole right of management.

(12) The prospective investor agrees to indemnify the parties to the financing for any loss which they may sustain or incur as a result of any action taken by the Securities and Exchange Commission or any other person or entity challenging the status of the prospective investor as an "accredited investor" within the meaning of Regulation D of the Securities Act.

(13) The prospective investor recognizes that the sale of the Bonds to it will be based upon the representations and warranties set forth herein, and agrees to indemnify the Woodmen Hills Metropolitan District, American National Bank, Bathgate Capital Partners, Becker Stowe & Bieber LLC and Susemihl, McDermott, Miller & Cowan, P.C., and to hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorney's fees, to which they may be put or which they may incur by reason of, or in connection with, any misrepresentation made by the prospective investor in this Investment Letter, any breach by the undersigned of the warranties and/or failure to fulfill any of the covenants or agreements set forth herein or arising out of the sale or distribution of any Bonds by the prospective investor in violation of the Securities Act or any other applicable securities or "blue sky" laws.

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IN WITNESS WHEREOF, subject to the acceptance hereof, the undersigned has completed this Investment Letter to evidence an offer by the prospective investor to purchase Woodmen Hills Metropolitan District, Acting By and Through Its Water and Wastewater Enterprise, El Paso County, Colorado, Water and Wastewater Enterprise Refunding Revenue Bonds, Series 2004, in the principal amount specified below, as of this _____ day of _____, 2004.

Purchase Commitment

Bonds in the following principal amount: \$ _____ (must be an integral multiple of \$1,000, with a minimum of \$5,000)

This Investment Letter and checks should be delivered to:

Bathgate Capital Partners
5350 South Roslyn Street, Suite 400
Greenwood Village, Colorado 80111

Checks should be made payable to:

" _____ "

PROSPECTIVE INVESTOR

Name (Please Print)

(Signature)

Residence Address and Zip Code:

Telephone Numbers and Area Codes:

Mailing Address and Zip Code (if different)

Tax I.D. or S.S. Number:

Date of Birth:

Citizenship: