CENTERRA METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2008

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JASPERS + HALL, PC
CERTIFIED PUBLIC ACCOUNTANTS
7900 E Union Avenue, Suite 900
Denver, CO 80237
(303) 773-3391

Report of Independent Certified Public Accountants

Board of Directors
Centerra Metropolitan District No. 1

We have audited the accompanying financial statements of the governmental activities and each major fund of Centerra Metropolitan District No. 1 (District) as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Centerra Metropolitan District No. 1, as of December 31, 2008, and the respective changes in it's financial position, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information presented on pages 29 through 30 is presented for purposes of additional analysis and is also not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Jaspers + Hall, PC

April 6, 2009

Management's Discussion and Analysis

As management of Centerra Metropolitan District No. 1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2008.

Financial Highlights

- Liabilities exceeded assets by $43,940,425 at the end of the fiscal year. This deficit of net assets is largely due to the District being responsible for the repayment of bonds and Developer advances that were used for public improvements and then subsequently dedicated to other governments.
- As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $23,772,356. This combined fund balance includes $9,423,916 of Debt Service Fund balance, and $13,748,786 of Capital Projects Fund balance.
- Total net assets decreased by $9,152,161. A significant portion of this decrease is attributable to the District's refunding of the 2004 Bonds to issue 2008 Bonds (see Note 5) and the costs associated with this including the funding of debt service payments from bond proceeds.
- Total cash and investments increased by $19,240,536 as compared to 2007. The increase in cash and investments is a direct result of the unspent bond proceeds from the issuance of the 2008 bonds to construct infrastructure and to fund debt service.
- General Fund expenditures were $1,168,066 for the year ended December 31, 2008. The expenditures included in the General Fund are those costs incurred to provide the administration of the District and include accounting, legal, management, insurance, utilities, landscape maintenance and other costs. These costs are anticipated to increase significantly in future years.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $526,268, or 46% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements identify functions of the District that are principally to be supported by ad valorem taxes *(governmental activities).* The governmental activities of the District include the financing, construction of, and maintenance of governmental infrastructure including streets, water, sewer, storm, park and recreation, and transportation and traffic improvements constructed or acquired by the District.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each of the funds - general fund, debt service fund, and capital projects fund - all of which are considered to be major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for this fund in the *basic financial statements* to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 7-27 of this report.

Other information. The report includes individual fund schedules. A budgetary comparison statement has been provided in this section for the Debt Service Fund and the Capital Projects Fund to demonstrate compliance with these budgets. The budget statements are found after the *basic financial statements* on pages 29-30 of this report. Also, a schedule of debt service requirements to maturity on the District's 2008 Variable Rate Refunding and Improvement Revenue Bonds is included on page 31.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The District's liabilities exceeded assets by $43,940,425 at the close of the most recent fiscal year.

Net Assets

	2008	2007
Current assets	$ 28,885,154	$ 9,630,593
Other assets	1,858,877	1,460,893
Capital assets	43,441,113	21,894,663
Total assets	74,185,144	32,986,149
Current liabilities	5,112,798	2,971,985
Long-term obligations	113,012,771	64,802,428
Total liabilities	118,125,569	67,774,413
Invested in capital, net of related debt	(19,010,848)	(14,853,264)
Restricted	1,301,960	1,757,835
Unrestricted net assets	(26,231,537)	(21,692,835)
Total net assets	$ (43,940,425)	$ (34,788,264)

The District's current assets increased $19,254,561 mainly due to increases in cash and investments of $19,240,536. The cash and investments increased due to the issuance of 2008 Bonds and related unspent bond proceeds, some of which were used to construct or acquire capital assets and to pay for debt service related costs.

Change in Net Assets

	2008	2007
Revenue		
General revenue		
URA revenues	$ 5,221,700	$ -
Net investment income and other income	396,649	417,592
Intergovernmental revenue - District No. 2	332,834	142,121
Program revenue		
Charges for services	2,160,403	4,726,592
Total revenue	8,111,586	5,286,305
Expenses		
General government	3,212,446	2,795,816
Dedication of capital assets to other governments	7,967,030	-
Interest and related costs on long-term debt	6,084,271	4,240,725
Total expenses	17,263,747	7,036,541
Change in net assets	(9,152,161)	(1,750,236)
Net assets - Beginning	(34,788,264)	(33,038,028)
Net assets - Ending	$ (43,940,425)	$ (34,788,264)

The District's main revenue sources for 2008 were revenues from the Loveland Urban Renewal Authority (LURA), public improvement fees, and investment income. The majority of the expenses for general government were accounting, legal, landscape maintenance, Chapungu Park, utilities, warranty costs, waterline reimbursement, management, administration and engineering, for both administrative and capital functions, totaling $2,307,375. The interest and related costs on long-term debt include interest, letter of credit fees, swap payments, remarketing fees, paying agent fees, trustee fees, banking fees from trustee, amortization of bond issue costs, interest expense on Developer advances, and collection fees paid to the City of Loveland.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $23,772,356. *Unreserved fund balance* constitutes $526,268 of this total amount and is available for spending at the government's discretion.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, reserved fund balance of the General Fund was $73,386, and the unreserved fund balance of the General Fund was $526,268 out of a total fund balance of $599,654.

The Debt Service Fund has a total fund balance of $9,423,916, all of which is restricted for repayments on debt service.

The Capital Projects Fund has a total fund balance of $13,748,786, all of which is restricted for the construction of infrastructure.

General Fund Budgetary Highlights

During the year ended December 31, 2008, supplementary appropriations approved by the District modified the appropriations from $1,200,000 to $1,461,600. The difference between the amended budgeted expenditures of $1,461,600 and the actual expenditures of $1,168,066 was $293,534. Notable savings were achieved in several expense categories. There was $102,790 in unutilized budget for the line item landscape maintenance and repairs, and another $100,000 for contingency.

Capital Assets

The District invested $30,489,466 in capital assets for its governmental activities for the period ended December 31, 2008. This investment in capital assets includes construction of streets, water, sewer, storm sewer, and park and recreation. Some of these infrastructure assets will ultimately be conveyed to other governments that will maintain these infrastructure assets in the future. At the time of conveyance these assets will be removed from the District's books. During 2008, $7,967,030 in infrastructure assets were transferred to other governments.

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-Term Debt

On March 20, 2008, the District issued $112,000,000 Variable Rate Refunding and Improvement Revenue Bonds which were used to repay the 2004 Series Variable Rate Revenue Bonds on April 1, 2008 and provide additional funds for construction, bond issue costs, and increased debt service reserve.

At the end of the current fiscal year, the District had total outstanding bond indebtedness of $112,000,000. The District's 2008 Bonds are due December 1, 2029 and pay a synthetically fixed interest rate of 3.5502% through maturity due to swap agreements in place at December 31, 2008. Interest payments are made monthly on the first business day of the subsequent month.

Additionally, the District had a long-term liability to the Developer, McWhinney, of $6,652,662 as a result of funding provided by the Developer to the District for operations and capital improvement costs, as well as a long-term liability to the Developer of $118,804 for the accrued interest on the funding the Developer provided.

Additional information on the District's long-term debt can be found in Note 5 of this report.

Next Year's Budgets and Rates

Significant increases are anticipated to operate the District in 2009 for items such as landscape maintenance, utilities, and repairs and maintenance, as well as for items such as accounting, management and administration, legal, and general engineering. Budgeted expenditures for the General Fund in 2009 are $1,974,229 and are anticipated to be primarily funded by LURA revenues and service fees from District No. 2.

Requests for Information

This financial report is designed to provide a general overview of the finances for Centerra Metropolitan District No. 1. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Centerra Metropolitan District No. 1, 8390 E. Crescent Parkway, Suite 600, Greenwood Village, Colorado 80111.

BASIC FINANCIAL STATEMENTS

CENTERRA METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET ASSETS
December 31, 2008

	Governmental Activities
ASSETS	
Cash and investments	$ 634,509
Cash and investments - Restricted	28,189,161
Interest receivable	13,724
Service fees receivable	22,999
Prepaid insurance expense	23,886
Prepaid expense	875
Deferred charges (net of accumulated amortization)	1,858,877
Capital assets, not being depreciated	
Construction in progress	11,028,136
Water rights	3,423,082
Capital assets, net	28,989,895
Total assets	74,185,144
LIABILITIES	
Accounts payable	1,447,031
Bond interest payable	340,192
Deferred URA revenue	3,325,575
Noncurrent liabilities	
Due within one year	94,772
Due in more than one year	112,917,999
Total liabilities	118,125,569
NET ASSETS	
Restricted for:	
Invested in capital assets, net of related debt	(19,010,848)
Emergency reserves	49,500
Debt service	12,916
Capital projects	1,239,544
Unrestricted	(26,231,537)
Total net assets	$ (43,940,425)

These financial statements should be read only in connection with the accompanying notes to financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**
Primary government:					
Government activities:					
General government	$ 3,212,446	$ 1,072,013	$ -	$ -	$ (2,140,433)
Dedication of capital assets to other government	7,967,030	-	-	-	(7,967,030)
Interest and related costs on long-term debt	6,084,271	1,088,390	-	-	(4,995,881)
	$ 17,263,747	$ 2,160,403	$ -	$ -	(15,103,344)
General revenues:					
Net investment income and other income					396,649
Service fees - District No. 2					332,834
URA revenues					5,221,700
Total general revenues					5,951,183
Change in net assets					(9,152,161)
Net assets - Beginning					(34,788,264)
Net assets - Ending					$ (43,940,425)

These financial statements should be read only in connection with the accompanying notes to financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	$ 634,509	$ -	$ -	$ 634,509
Cash and investments - Restricted	49,500	13,853,606	14,286,055	28,189,161
Interest receivable	88	5,765	7,871	13,724
Receivable - Service fees	22,999	-	-	22,999
Prepaid insurance expense	23,886	-	-	23,886
Prepaid expense	-	875	-	875
TOTAL ASSETS	$ 730,982	$ 13,860,246	$ 14,293,926	$ 28,885,154
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 131,328	$ 770,563	$ 545,140	$ 1,447,031
Bond interest payable	-	340,192	-	340,192
Deferred URA revenue	-	3,325,575	-	3,325,575
Total liabilities	131,328	4,436,330	545,140	5,112,798
FUND BALANCES				
Reserved for:				
Prepaids	23,886	-	-	23,886
Emergency reserves	49,500	-	-	49,500
Debt service	-	9,423,916	-	9,423,916
Capital projects	-	-	13,748,786	13,748,786
Unreserved, reported in:				
General Fund	526,268	-	-	526,268
Total fund balances	599,654	9,423,916	13,748,786	23,772,356
TOTAL LIABILITIES AND FUND BALANCES	$ 730,982	$ 13,860,246	$ 14,293,926	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.	
Capital assets, not being depreciated	14,451,218
Capital assets, net	28,989,895
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Bond issue costs, net	1,858,877
Long-term liabilities, including Developer advances and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Bonds payable	(112,000,000)
Cost of refunding, net	6,045,268
Developer advance payable	(6,652,662)
Developer advance interest payable	(118,804)
Waterline reimbursement agreement note payable	(286,573)
Net assets of governmental activities	$ (43,940,425)

These financial statements should be read only in connection with the accompanying notes to financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2008

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Service fees - District No. 2	$ 332,834	$ -	$ -	$ 332,834
Net investment and other income	28,298	187,882	180,469	396,649
Public improvement fees	165,000	1,088,390	907,013	2,160,403
URA revenues	1,121,824	4,099,876	-	5,221,700
Total revenues	1,647,956	5,376,148	1,087,482	8,111,586
EXPENDITURES				
Current				
Accounting	65,309	-	-	65,309
Audit	7,300	-	-	7,300
Bond issue costs	-	-	1,951,317	1,951,317
Chapungu Park	75,661	-	-	75,661
Directors' fees	1,900	-	-	1,900
District administration - Financial consulting	231,639	-	97,893	329,532
District management	61,204	-	397,664	458,868
Engineering	61,762	-	11,170	72,932
Insurance and bonds	17,354	-	-	17,354
Legal	155,713	-	31,532	187,245
Landscape maintenance and repairs	407,314	-	-	407,314
Reimbursement per Waterline Agreement - Principal	-	-	105,947	105,947
Reimbursement per Waterline Agreement - Interest	-	-	23,551	23,551
Snow removal and sidewalk sweeping	4,733	-	-	4,733
Utilities	61,584	-	-	61,584
Warranty costs	-	-	542,983	542,983
Miscellaneous	3,745	-	-	3,745
Debt service				
Paying agent/trustee/banking fees	-	8,000	-	8,000
Bond principal	-	57,000,000	-	57,000,000
Interest expense - 2004 Bonds	-	463,247	-	463,247
Letter of credit fees - 2004 Bonds	-	221,307	-	221,307
Interest expense - 2008 Bonds	-	3,148,080	-	3,148,080
Letter of credit fees - 2008 issue	-	1,385,701	-	1,385,701
2005 Swap contract termination payment	-	4,885,000	-	4,885,000
Remarketing fees	-	123,853	-	123,853
City of Loveland collection fees	-	77,012	-	77,012
Capital outlay	-	-	30,489,466	30,489,466
Total expenditures	1,155,218	67,312,200	33,651,523	102,118,941
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	492,738	(61,936,052)	(32,564,041)	(94,007,355)
OTHER FINANCING SOURCES (USES)				
Bond issuance	-	-	112,000,000	112,000,000
Transfer from other fund	-	67,779,535	601,015	68,380,550
Transfer to other fund	(12,848)	(601,015)	(67,766,687)	(68,380,550)
Developer advance	-	-	5,866,842	5,866,842
Repay Developer advance	-	-	(5,992,740)	(5,992,740)
Repay Developer advance - Interest	-	-	(752,999)	(752,999)
Total other financing sources (uses)	(12,848)	67,178,520	43,955,431	111,121,103
NET CHANGE IN FUND BALANCES	479,890	5,242,468	11,391,390	17,113,748
FUND BALANCES - BEGINNING OF YEAR	119,764	4,181,448	2,357,396	6,658,608
FUND BALANCES - END OF YEAR	$ 599,654	$ 9,423,916	$ 13,748,786	$ 23,772,356

These financial statements should be read only in connection with the accompanying notes to financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2008

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

Net change in fund balances - Total governmental funds	$ 17,113,748
Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Therefore, this is the amount of capital outlay, net of depreciation, in the current period.	
Capital outlay	30,489,466
Dedication of infrastructure to other governments	(7,967,030)
Depreciation	(975,986)
The issuance of long-term debt (e.g., bonds, Developer advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of	
Current year debt - Developer advance	(5,866,842)
Current year repayment of Developer advance - Principal	5,992,740
Current year repayment of Developer advance - Interest	752,999
Current year debt - Bond issuance	(112,000,000)
Current year bond issue costs	1,951,317
Current year refunded bond principal	57,000,000
Current year RBC 2005 SWAP termination payment	4,885,000
Current year amortization of bond issuance expenses	(92,440)
Current year amortization of cost of refunding	(300,625)
Current year reimbursement per waterline agreement - Principal	105,947
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Accrued interest on Developer advance - Change in liability	(240,455)
Changes in net assets of governmental activities	$ (9,152,161)

These financial statements should be read only in connection with the accompanying notes to financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2008

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Service fees - District No. 2	$ 396,278	$ 334,712	$ 332,834	$ (1,878)
Net investment and other income	20,000	25,000	28,298	3,298
Public improvement fees	250,000	165,000	165,000	-
URA revenues	555,267	949,040	1,121,824	172,784
Total revenues	1,221,545	1,473,752	1,647,956	174,204
EXPENDITURES				
Current				
Accounting	58,000	65,000	65,309	(309)
Audit	10,000	7,300	7,300	-
Chapungu Park	-	150,800	75,661	75,139
Directors' fees	-	1,900	1,900	-
District administration - Financial consulting	207,650	211,590	231,639	(20,049)
District management	150,000	61,204	61,204	-
Election costs	10,000	-	-	-
Engineering	12,500	62,000	61,762	238
Insurance and bonds	20,000	17,354	17,354	-
Landscape maintenance and repairs	404,830	510,104	407,314	102,790
Legal	191,000	121,500	155,713	(34,213)
Snow removal and sidewalk sweeping	-	65,000	4,733	60,267
Utilities	92,000	70,000	61,584	8,416
Miscellaneous	9,675	5,000	3,745	1,255
Contingency	34,345	100,000	-	100,000
Total expenditures	1,200,000	1,448,752	1,155,218	293,534
EXCESS OF REVENUES OVER EXPENDITURES	21,545	25,000	492,738	467,738
OTHER FINANCING SOURCES (USES)				
Transfer to other fund	-	(12,848)	(12,848)	-
Total other financing sources (uses)	-	(12,848)	(12,848)	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	21,545	12,152	479,890	467,738
FUND BALANCES - BEGINNING OF YEAR	31,861	119,764	119,764	-
FUND BALANCES - END OF YEAR	$ 53,406	$ 131,916	$ 599,654	$ 467,738

These financial statements should be read only in connection with the accompanying notes to financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 - DEFINITION OF REPORTING ENTITY

Centerra Metropolitan District No. 1 (District), a quasi-municipal corporation was organized on May 20, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in the City of Loveland (City), Larimer County, Colorado. The District was established to provide construction, installation, financing and operation of public improvements, including streets, traffic safety controls, landscaping, water, sanitary sewer, storm drainage, television relay, and park and recreation facilities. The District's service plan was approved by the City. Pursuant to the consolidated service plan for Centerra Metropolitan Districts No. 1-4, the District operates as the Service District related to Centerra Metropolitan District No. 2 (Commercial District), Centerra Metropolitan District No. 3 (Residential District), and Centerra Metropolitan District No. 4 (Regional Improvements District).

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

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

On January 26, 2004, Centerra Public Improvement Collection Corporation (PIC Corporation) and the Centerra Retail Sales Fee Corporation (RSF Corporation) were formed. Both PIC Corporation and RSF Corporation are nonprofit corporations that were formed for the purpose of adopting and imposing Declarations and Covenants on property within Centerra and for the purpose of imposing and collecting certain fees. PIC Corporation and RSF Corporations have entered into an agreement with the District whereby on June 4, 2004, PIC and RSF Corporations have agreed to remit to the District certain revenues received from fees imposed by PIC and RSF Corporations in consideration of the District's financing, construction and operation of public improvements which benefit the members of PIC and RSF Corporations.

The District is not financially accountable for any other organization, including Centerra Metropolitan Districts No. 2-4, PIC Corporation and RSF Corporation, nor is the District a component unit of any other primary governmental entity, including the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are susceptible to accrual are service fees and public improvement fees. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

During the year ended December 31, 2008, supplementary appropriations approved by the District's Board of Directors modified the appropriations from $1,200,000 to $1,461,600 in the General Fund, from $10,379,506 to $68,134,997 in the Debt Service Fund, and from $72,263,969 to $110,384,433 in the Capital Projects Fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Investments are carried at fair value.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of invested in capital assts, net of related debt component of the District's net assets.

There is a two year warranty period on the assets that were conveyed to the City of Loveland. The costs associated with the warranty during 2008 were $542,983.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Monumentation	20 years
Landscape	20 years
Promenade infrastructure	20 years

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization

Bond Issue Costs

In the government-wide financial statements, bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the effective interest method.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service or capital projects expenditures.

Cost on Bond Refunding

In the government-wide financial statements, the deferred cost on bond refunding is being amortized using the interest method over the life of the new bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a reduction of bonds payable.

Fund Equity

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

Reserved Fund Balance

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. $49,500 of the fund balance has been reserved in compliance with this requirement.

The reserved fund balance in the Debt Service Fund in the amount of $9,423,916 is to be used exclusively for future debt service payments.

The reserved fund balance in the Capital Projects Fund in the amount of $13,748,786 represents bond proceeds and Developer advances for completion of capital projects.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An amount of the fund balance equal to the reported prepaid expense is reserved to indicate that the prepaid expense does not constitute spendable resources even though it is a component of fund balance.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2008, are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 634,509
Cash and investments - Restricted	28,189,161
Total cash and investments	$ 28,823,670

Cash and investments as of December 31, 2008, consist of the following:

Deposits with financial institutions	$ 394,441
Investments	28,429,229
Total cash and investments	$ 28,823,670

Deposits with Financial Institutions

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

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2008, the District's cash deposits had a bank balance of $131,690 that was either federally insured or collateralized by PDPA, and a carrying balance of $394,441.

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Investments

The District has not adopted a formal investment policy, however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

. Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
. General obligation and revenue bonds of U.S. local government entities
. Bankers' acceptances of certain banks
. Commercial paper
. Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
. Certain money market funds
. Guaranteed investment contracts
* Local government investment pools

The local government investment pools, which include the Colotrust Surplus Asset Fund Trust (CSAFE) and the Colorado Local Government Liquid Asset Trust (Colotrust) are both rated AAAm by Standard & Poor's. As of February 27, 2009, Standard & Poor's has placed CSAFE on CreditWatch Negative.

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2008, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Liquid Asset Trust (Colotrust)	Less than 1 year	$ 28,429,229

COLOTRUST

During 2008, the Centerra Metropolitan District No. 1 invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds and all the District's money that was invested in trust accounts at American National Bank (ANB) were also invested in the Trust. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to $1.00 The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2008, the Centerra Metropolitan District No. 1 had $1,937,199 invested in COLOTRUST PLUS+ and $26,492,030 invested in COLOTRUST PRIME (funds invested by ANB).

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2008, follows:

	Balance at December 31, 2007	Increases	Decreases	Balance at December 31, 2008
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in progress	$ 9,691,526	$ 30,489,466	$ 29,152,856	$ 11,028,136
Water rights	3,423,082	-	-	3,423,082
Total capital assets, not being depreciated	13,114,608	30,489,466	29,152,856	14,451,218
Capital assets, being depreciated:				
Monumentation	4,353,218	197,000	-	4,550,218
Landscape improvements	5,250,073	-	-	5,250,073
Promenade shops	-	20,988,826	-	20,988,826
Total capital assets, being depreciated	9,603,291	21,185,826	-	30,789,117
Less accumulated depreciation for:				
Monumentation	397,700	222,586	-	620,286
Landscape improvements	425,536	262,504	-	688,040
Promenade infrastructure	-	490,896	-	490,896
Total accumulated depreciation	823,236	975,986	-	1,799,222
Total capital assets, being depreciated, net	8,780,055	20,209,840	-	28,989,895
Governmental activities capital assets, net	$ 21,894,663	$ 50,699,306	$ 29,152,856	$ 43,441,113

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
General government	$ 975,986
Total depreciation expense - Governmental activities	$ 975,986

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2008:

	Balance at December 31, 2007	Additions	Reductions	Balance at December 31, 2008	Due Within One Year
Variable rate revenue bonds:					
2004 Bonds	$ 57,000,000	$ -	$ (57,000,000)	$ -	$ -
Variable rate revenue and refunding bonds					
2008 Bonds	-	112,000,000	-	112,000,000	420,000
Cost on bond refunding	-	(6,345,893)	300,625	(6,045,268)	(431,175)
Developer advances	6,778,560	5,866,842	(5,992,740)	6,652,662	-
Interest on Developer advances	631,348	240,455	(752,999)	118,804	-
Waterline reimbursement agreement note payable	392,520	-	(105,947)	286,573	105,947
	$ 64,802,428	$ 111,761,404	$ (63,551,061)	$ 113,012,771	$ 94,772

The details of the District's long-term obligations are as follows:

Variable Rate Refunding and Improvement Revenue Bonds, Series 2008 (2008 Bonds) dated March 14, 2008 were issued on March 20, 2008, in the original amount of $112,000,000 for the purpose of: (i) refunding the District's outstanding Variable Rate Revenue Bonds, Series 2004, including payment of a termination payment due in connection with an interest rate exchange agreement related thereto; (ii) acquiring and constructing certain public infrastructure improvements in the District required for the Development, consisting generally of streets, water, sanitary sewer, park and recreation, and related improvements, including reimbursements to the Developer for amounts advanced for such purposes; (iii) funding a Debt Service Reserve Account (which, while the Letter of Credit is in effect, is pledged to the Bank and not to the Series 2008 Bonds); and (iv) paying certain costs related to the issuance of the Series 2008 Bonds. The 2008 Bonds are term bonds due on December 1, 2029, with mandatory redemption principal payments starting at $420,000 on December 1, 2009, and increasing annually thereafter.

The bonds are subject to redemption prior to maturity at the option of the District at certain dates depending upon the interest rate mode. The bonds are currently remarketed in the weekly mode. Interest is payable on the first business day of each calendar month. The District may effect a change in mode to a daily, monthly, semi-annual, annual, flexed pricing or fixed rate mode by giving proper notice in accordance with the provisions in the Indenture.

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The bonds are secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: (1) Tax Increment Financing (TIF) Revenues derived from the Required Mill Levy, (2) Public Improvement Fee (PIF) Revenues, and (3) any other legally available monies which the District determines to be treated as Pledged Revenue. The bonds are also secured by amounts held by the Trustee in the Reserve Fund(s). Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of Centerra Metropolitan District No. 2 each year in a amount sufficient to pay the principal, premium if any, and interest on the bonds as the same become due and payable and to make up any deficiencies in the Reserve Fund. The maximum Required Mill Levy is 72 mills and the minimum Mill Levy is 35 mills, with respect to Centerra Metropolitan District No. 2, adjusted for changes in the ratio of actual value to assessed value of property within the District. As of December 31, 2008, the adjusted maximum mill levy is 72 mills and the adjusted minimum mill levy is 35 mills. For collection year 2009, the District levied 49.255 mills with respect to District No. 2.

Letter of Credit

Concurrently with the issuance of the 2008 Bonds, the District established an irrevocable direct pay Letter of Credit with Compass Bank in the amount of $112,000,000. The Letter of Credit expires March 20, 2013, unless extended and subject to certain acts of default as defined in the Indenture and the Reimbursement Agreement. Letter of Credit facility fees are paid quarterly at an annual rate of up to 1.50% per annum on the daily average undrawn Stated Amount of the Letter of Credit. The Facility Fee Rate is currently 1.50% per annum and thereafter the Facility Fee Rate will be determined by the debt service coverage ratio for the immediately proceeding fiscal year as follows:

Coverage Ratio	Facility Fee Rate
<1.50%	1.50%
1.51% - 1.75%	1.25%
>1.75%	1.00%

Flow of Funds

Pursuant to the Indenture, the Trustee has established a Revenue Bond Fund. Pursuant to the Custodial Agreement, the District is to deposit the following pledged revenues into the Revenue Bond Fund: i) Tax Increment Financing (TIF) Revenues; and ii) Residential Contributions, defined by the "Residential District IGA" as an amount equal to the assessment of 5 mills against taxable property within the Residential District (Centerra Metropolitan Districts 2 - 4), from the

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

earlier of: (a) the issuance of the first certificate of occupancy in the Residential District; or (b) January 1, 2009, through at least August 19, 2029. Also, the Custodial Agreement requires that the following Bank Collateral Revenues are to be deposited in the following subaccounts of the Collateral Revenue Fund: i) into the PIF Revenue Account all Public Improvement Fee (PIF) Revenues; ii) into the S/O Tax Revenue Account, all specific ownership tax revenues. The revenues deposited into the Revenue Bond Fund and the Collateral Revenue Fund are to be used as set forth below.

Revenue Bond Fund

Amounts deposited into the Revenue Bond Fund are to be applied to the following purposes in the following order of disbursement priority, provided that such transfers are to be made first from the TIF Revenue Account, second, from the Residential Tax Revenue Account, and third, from the PIF Bond Account.

i) Payment of Fees due to the Custodian and payment of LOC Facility Fees.
ii) Payments on debt service on the 2008 Bonds, and then payments on the swap agreement with Royal Bank of Canada (RBC) (see Note 8).
iii) Payments to replenish the Debt Service Reserve Funds to the extent that the Debt Service Fund Requirement is not being met. The Debt Service Reserve Fund Requirement is $9,411,000.
iv) Payment for Swap Termination if needed.
v) Payment to the Loveland Urban Renewal Authority (LURA) as the Regional Allocation pursuant to the terms of the Master Financing Agreement (MFA).
vi) Payment for operations of the District, not to exceed the District's annual operating budget and not greater than $167,000 per month when combined with transfers made from the Collateral Revenue Fund, without prior written consent of the majority bank.

Collateral Revenue Fund

Amounts deposited into the Revenue Bond Fund are to be applied to the following purposes in the following order of disbursement priority, provided that such transfers are to be made first from PIF Revenue Account then from the S/O Tax Revenue Account:

i) From the amount on deposit in the PIF Revenue Account to the City for any unpaid fees or expenses due under the terms on the Collection Agreement.
ii) From amounts on deposit in the PIF Revenue Account to the PIF Bond Account of the Revenue Bond Fund, to fund any insufficiencies of the Revenue Bond Fund as outlined above.

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

iii) To the Letter of Credit Bank from any Collateral Revenue Fund for amounts remaining due under the Reimbursement Agreement.

iv) Solely from the amounts on deposit in the PIF Revenue Account to the LURA as the Regional Allocation pursuant to the terms of the MFA.

v) Payment for operations of the District, not to exceed the District's annual operating budget and not greater than $167,000 per month when combined with transfers made from the Revenue Bond Fund, without prior written consent of the majority bank.

The District entered into a swap agreement with Royal Bank of Canada during 2008 for the purpose of creating a synthetic fixed interest rate on their 2008 Bonds of 3.5502% per annum (see Note 8).

The District's long-term obligations, using a synthetic fixed interest rate of 3.5502% through 2029, will mature as follows:

	Governmental Activities		
	Principal	**Interest**	**Total**
2009	$ 420,000	$ 3,976,225	$ 4,396,225
2010	660,000	3,961,314	4,621,314
2011	2,375,000	3,937,883	6,312,883
2012	3,090,000	3,853,566	6,943,566
2013	3,310,000	3,743,865	7,053,865
2014-2018	21,380,000	16,721,094	38,101,094
2019-2023	28,825,000	12,404,939	41,229,939
2024-2028	38,185,000	6,661,243	44,846,243
2029	13,755,000	488,330	14,243,330
	$ 112,000,000	$ 55,748,459	$ 167,748,459

Swap Payments and Associated Debt

Using rates as of December 31, 2008, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary (see Note 8).

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Refunding

On March 20, 2008, the District advance refunded and defeased (debt legally satisfied) $57,000,000 of Variable Rate Revenue Bonds dated October 15, 2004, with an average interest rate of 4.25% by the issuance of $112,000,000 Variable Rate Refunding and Improvement Revenue Bonds dated March 14, 2008, with an average interest rate of 3.5502%. The District advance refunded the 2004 Series bonds to reduce its interest rate over the next 21 years. There was an economic loss (difference between the present values of the debt service payments on the old and new debt) of $(1,756,262). Restrictions on the monies restricted for interest payments and the reserve account pertaining to the defeased bonds were removed under the new refunding. The defeased bonds are not considered a liability of the District since sufficient funds in the amount of $57,131,489 were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds until the call date, April 1, 2008, at which point the bonds were repaid in their entirety from the remaining funds in the escrow account. As of December 31, 2008, the outstanding principal balance of the bonds is $-0-.

In the government-wide statements, the District incurred a cost on bond refunding in the amount of $6,345,893, which has been deferred and is being amortized over the life of the new debt.

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On May 4, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed $5,350,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2008, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized May 4, 2004	Authorization Used Series 2004 Bonds	Authorization Used Series 2008 Bonds	Authorized But Unissued
Street improvement	$ 350,000,000	$ 28,226,400	$ 24,426,816	$ 297,346,784
Traffic and safety controls	350,000,000	1,185,600	2,149,711	346,664,689
Water supply system	350,000,000	1,026,000	7,533,504	341,440,496
Sanitary sewer and storm drainage	350,000,000	12,369,000	13,449,969	324,181,031
Parks and recreation	350,000,000	14,067,600	-	335,932,400
Public transportation	350,000,000	125,400	-	349,874,600
Television relay and transmission	350,000,000	-	-	350,000,000
Mosquito control	350,000,000	-	-	350,000,000
Fire protection	350,000,000	-	-	350,000,000
Administrative/management services	50,000,000	-	-	50,000,000
Refinancing district debt	700,000,000	-	64,440,000	635,560,000
Intergovernmental agreements among Centerra Metropolitan Districts Nos. 1-4	500,000,000	-	-	500,000,000
Contracts with other political subdivisions	500,000,000	-	-	500,000,000
Reimbursement obligations to private entities	400,000,000	-	-	400,000,000
Construction management	50,000,000	-	-	50,000,000
	$ 5,350,000,000	$ 57,000,000	$ 112,000,000	$ 5,181,000,000

Pursuant to the Service Plan, the District is not limited as to bond indebtedness. Required Mill Levy is discussed under Bonds.

The District anticipates issuing $11,500,000 in general obligation debt in the year ending December 31, 2009, as set forth in the budget for the year ending December 31, 2009.

NOTE 6 - NET ASSETS

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2008, the District had invested in capital assets, net of related debt calculated as follows:

	Governmental Activities
Invested in capital assets, net of related debt:	
Capital assets, net	$ 32,412,977
Unspent bond proceeds	12,689,909
Bond issuance costs, net of accumulated amortization	1,076,128
Current and noncurrent portion of long-term obligations - Bonds	(64,838,234)
Cost of refunding, net of accumulated amortization	3,499,683
Noncurrent portion of long-term obligations - Developer advances	(3,851,311)
Invested in capital assets, net of related debt	$ (19,010,848)

Restricted assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net assets as of December 31, 2008 as follows:

	Governmental Activities
Restricted net assets:	
Emergencies (see Note 2)	$ 49,500
Debt service	12,916
Capital projects	1,239,544
Total restricted net assets	$ 1,301,960

The District's unrestricted net assets as of December 31, 2008 totaled $(26,231,537). This deficit amount was a result of the District being responsible for the financing and repayment of bonds issued for the construction of public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 7 - RELATED PARTY

The Developers of the property which constitutes the District are McWhinney; Centerra Residential, LLC; Centerra Properties West, LLC (CPW); Rocky Mountain Village II, LLLP (RMVII); and SMP4 Investments, Inc. (SMP4). The members of the Board of Directors are employees, owners or are otherwise associated with the Developers and have disclosed any potential conflicts of interest in taking action on matters brought before the Board. The District owes CPW $5,533,322, RMVII $-0-, and SMP4 $1,119,340 as of December 31, 2008 for outstanding Developer advances (see Note 5).

NOTE 8 - AGREEMENTS

Master Financing Agreement

The Master Financing Agreement (MFA) was entered into between the District, the City, the Loveland Urban Renewal Authority (LURA), the Developer, Centerra Public Improvement Collection Corporation, and Centerra Public Improvement Development Corporation on August 19, 2004. Pursuant to the MFA the LURA assigned the net TIF Revenues to the District for the purpose of financing certain public improvements. The MFA also requires the recording of the PIF Covenant against all of the property within the Commercial District to provide for the imposition of a Public Improvement Fee. In connection with the PIF the City agrees in the MFA to grant a credit against the collection of 1.25% of its 3.0% sales tax on taxable sales transactions occurring within the Commercial District. The MFA also provides for the payment to the District by the Residential District of 5.000 mills against the property in the Residential District (referred to as the Residential Contribution). The MFA authorizes the District to provide for the construction or acquisition of certain public improvements.

Funding and Reimbursement Agreement (Capital Costs)

On January 1, 2008, the District entered into four separate Advance and Reimbursement Agreements for Capital Costs with four different Developer entities: Centerra Residential LLC, CPW, RMVII, and SMP4 (see Note 7). The four agreements call for the Developer entity during the calendar year ending December 31, 2008 to loan the District up to $3,000,000, $9,260,000, $500,000 and $10,800,000, respectively, for the purpose of funding the construction of certain public improvements as outlined in the District's service plan, including all amounts outstanding to the Developer entity at December 31, 2007. All four agreements are secured by promissory

NOTE 8 - AGREEMENTS (CONTINUED)

notes from the District to the respective Developer entity. The notes accrue interest at the rate of 2% plus the current Federal Reserve Board Prime Rate and are considered to be multiple fiscal year obligations of the District. Interest on each note does not compound.

Improvements Acquisition Agreement

On September 2, 2004, the District entered into an Improvements Acquisition Agreement with the Centerra Lifestyle Center, L.L.C., a Delaware limited liability company (Lifestyle Center). Under the terms of this agreement the Lifestyle Center agreed to design, construct and complete certain public improvements as outlined in the agreement. The District agreed to purchase these improvements from the Lifestyle Center upon formal acceptance of the improvements by the District's Board of Directors. The District satisfied its obligations under this agreement on March 20, 2008 by paying the Lifestyle Center in full for the improvements the Lifestyle Center constructed. The payment was made from the proceeds of the 2008 Bonds.

Waterline Reimbursement Agreement

On March 15, 2007, the District entered into a Waterline reimbursement agreement with the City of Loveland (City). Under the terms of this agreement the District agrees to reimburse the City for 100% of eligible costs associated with the installation of a sixteen inch (16") waterline to benefit certain properties within the District. The amount due to the City, based on the actual eligible costs, was determined to be $529,736, spread out equally over five (5) years with payments of $105,947 plus interest due on June 1 of each year starting in 2007. Interest due is determined by multiplying the balance due by the interest rate of 6%. On May 17, 2007, the District made the first required payment to the City in the amount of $169,000 which was $31,269 more than the required payment of $137,731, including interest. This overpayment was subtracted from the 2008 balance due. On May 15, 2008, the District made the second required payment to the city in the amount of $129,498 consisting of $105,947 principal and $23,551 interest. The balance due at December 31, 2008 is $286,573 (see Note 5).

Interest Rate Swaps

On August 11, 2005, the District entered into a swap agreement with RBC for the notional amount of $57,000,000 (referred to as the 2005 swap). On March 20, 2008, the District terminated the 2005 swap. On March 20, 2008, the District entered into a new swap agreement with RBC for the notional amount of $112,000,000 (referred to as the 2008 swap).

NOTE 8 - AGREEMENTS (CONTINUED)

Objective of the interest rate swaps. As a means to lower its borrowing costs, when compared against fixed rate bonds at the time of issuance in March 2008, the District has entered into an interest rate swap in connection with its $112 million Series 2008 Variable Rate Refunding and Improvement Revenue Bonds. The intention of the swap is to effectively change the District's variable interest rate on the 2008 Bonds to a synthetic fixed rate of 3.5502% through the life of the 2008 Bonds.

Terms. The 2008 Bonds mature on December 1, 2029, and the 2008 swap matures on December 1, 2029. The principal amount of the 2008 Bonds of $112 million matches the notional amount of the 2008 swap. Under the swap, the District pays the counterparty a fixed payment of 3.5502% through December 1, 2029, and receives a variable payment based on the Securities Industry and Financial Markets Association Swap Index (SIFMA). The 2008 Bonds' variable rate coupons are also based on the SIFMA.

Fair Value. The 2008 swap has a negative fair value of $10,312,542 at December 31, 2008. The fair value was determined to be the market price of the swaps at December 31, 2008.

Credit Risk. As of December 31, 2008, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair market value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The 2008 swap counterparty was rated "AA" by Fitch Ratings, "AA-" by Standard & Poor's and "Aaa" by Moody's Investors Service as of December 31, 2008. Standard & Poor's has placed RBC on CreditWatch Negative.

Basis Risk. The District has managed its basis risk by choosing to receive their variable rate payments from RBC based on the SIFMA, which will closely approximate the variable rate interest payments due on the 2008 Bonds.

Termination Risk. The District or RBC may terminate the swap if the other party fails to perform under the terms of the contract. The swaps may be terminated at any time based on the District's option or because of default. If the District decides to take its option to terminate the agreement, it is obligated to give two business days notice and pay a settlement amount to free itself of the swap contract. If an event of default occurs by RBC, for instance if their credit rating falls below "A-" as issued by Fitch Ratings or Standard & Poor's or "A3" as issued by Moody's Investors Service, the swap can be terminated. Also, if at the time of the termination, the swap has a negative fair value, the District would be liable to RBC for a payment equal to the absolute value of the swap's fair value, or, if the fair value of the swap is positive, the District will pay the fair value of the swap. The 2005 swap was terminated on March 20, 2008 at the District's option, with a termination payment made at that time of $4,885,000.

NOTE 9 - INTERFUND AND OPERATING TRANSFERS

The following schedule summarizes the District's transfers for the year ended December 31, 2008:

	Transfers In	
Transfers Out	**Debt Service Fund**	**Capital Projects Fund**
General Fund	$ 12,848	$ -
Debt Service Fund	$ -	$ 601,015
Capital Projects Fund	$ 67,766,687	$ -

The transfer of $601,015 from the Debt Service Fund to the Capital Projects Fund was to move interest earnings from the Debt Service Reserve to the District's project account, to move the remaining balance in the 2004 Capitalized Interest account at ANB to the 2008 COI Fund account at ANB, and to move funds from the 2008 Escrow account at ANB to the 2008 Construction account at ANB, the latter two events subsequent to the issuance of the 2008 Bonds. The transfer of $12,848 from the General Fund to the Debt Service Fund was LOC fees and remarketing fees paid during the first three months of 2008 by the Real Property Tax Fund account at ANB to the Trustee. The transfer of $67,766,687 from the Capital Projects Fund to the Debt Service Fund was for the purpose of paying Debt Service expenses, funding the 2008 Reserve Fund account at ANB, paying the swap termination to RBC in regards to the 2005 swap, and providing sufficient funds to defease the 2004 Bonds.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of December 31, 2008, the District had unexpended construction related contract commitments of approximately $32,947.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God.

NOTE 11 - RISK MANAGEMENT (CONTINUED)

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2008. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

NOTE 12 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

On May 4, 2004, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied and future levied taxes and fees of the District, up to the amounts specified in the May 2004 election, without regard to any limitations under TABOR.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

SUPPLEMENTAL INFORMATION

CENTERRA METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2008

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Net investment and other income	$ 350,000	$ 206,000	$ 187,882	$ (18,118)
Public improvement fees	1,000,000	1,069,137	1,088,390	19,253
URA revenues	7,494,562	5,494,562	4,099,876	(1,394,686)
Total revenues	8,844,562	6,769,699	5,376,148	(1,393,551)
EXPENDITURES				
Debt service				
Paying agent/trustee/banking fees	30,000	19,320	8,000	11,320
Bond principal	1,290,000	57,000,000	57,000,000	-
Interest expense - 2004 Bonds	2,422,506	463,247	463,247	-
Letter of credit fees - 2004 Bonds	1,540,000	221,307	221,307	-
Interest expense - 2008 Bonds	-	3,115,617	3,148,080	(32,463)
Letter of credit fees - 2008 issue	3,600,000	1,333,982	1,385,701	(51,719)
2005 Swap contract termination payment	-	4,885,000	4,885,000	-
Remarketing and rating fees	57,000	110,000	123,853	(13,853)
City of Loveland collection fees	90,000	77,012	77,012	-
Contingency	1,000,000	308,497	-	308,497
Total expenditures	10,029,506	67,533,982	67,312,200	221,782
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,184,944)	(60,764,283)	(61,936,052)	(1,171,769)
OTHER FINANCING SOURCES (USES)				
Transfer from other fund	9,189,325	67,779,535	67,779,535	-
Transfer to other fund	(350,000)	(601,015)	(601,015)	-
Total other financing sources (uses)	8,839,325	67,178,520	67,178,520	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	7,654,381	6,414,237	5,242,468	(1,171,769)
FUND BALANCES - BEGINNING OF YEAR	4,187,961	4,181,448	4,181,448	-
FUND BALANCES - END OF YEAR	$ 11,842,342	$ 10,595,685	$ 9,423,916	$ (1,171,769)

See the accompanying independent certified public accountants report.

CENTERRA METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2008

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Net investment and other income	$ 250,000	$ 144,000	$ 180,469	$ 36,469
Public improvement fees	1,367,965	1,367,965	907,013	(460,952)
Total revenues	1,617,965	1,511,965	1,087,482	(424,483)
EXPENDITURES				
Current				
Bond issue costs	1,500,000	1,951,317	1,951,317	-
District administration - Financial consulting	65,280	115,000	97,893	17,107
District management	480,000	426,000	397,664	28,336
Engineering	20,000	13,100	11,170	1,930
Legal	100,000	40,000	31,532	8,468
Reimbursement per Waterline Agreement - Principal	161,200	82,396	105,947	(23,551)
Reimbursement per Waterline Agreement - Interest	-	47,102	23,551	23,551
Warranty costs	-	150,000	542,983	(392,983)
Capital outlay				
I-25 and Crossroads interchange improvement	2,209,593	-	-	-
Major infrastructure projects	10,000,000	-	-	-
Mixed use major infrastructure projects	41,372,279	-	-	-
Water	150,000	1,515,483	1,515,191	292
Streets	3,238,298	8,172,396	9,242,404	(1,070,008)
Transportation	48,100	50,000	-	50,000
Park and recreation	2,729,894	15,808,264	13,355,520	2,452,744
Sewer and storm sewer	-	6,517,795	6,376,351	141,444
Contingency	1,000,000	1,000,000	-	1,000,000
Total expenditures	63,074,644	35,888,853	33,651,523	2,237,330
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(61,456,679)	(34,376,888)	(32,564,041)	1,812,847
OTHER FINANCING SOURCES (USES)				
Bond issuance	60,000,000	112,000,000	112,000,000	-
Transfer from other fund	350,000	601,015	601,015	-
Transfer to other fund	(9,189,325)	(67,766,687)	(67,766,687)	-
Developer advance	5,635,304	7,096,787	5,866,842	(1,229,945)
Repay Developer advance	-	(5,975,894)	(5,992,740)	(16,846)
Repay Developer advance - Interest	-	(752,999)	(752,999)	-
Total other financing sources (uses)	56,795,979	45,202,222	43,955,431	(1,246,791)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(4,660,700)	10,825,334	11,391,390	566,056
FUND BALANCES - BEGINNING OF YEAR	4,740,485	2,357,396	2,357,396	-
FUND BALANCES - END OF YEAR	$ 79,785	$ 13,182,730	$ 13,748,786	$ 566,056

See the accompanying independent certified public accountants report.

CENTERRA METROPOLITAN DISTRICT NO. 1
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2008

$112,000,000 Variable Rate Refunding and Improvement Revenue Bonds
Series 2008
Dated March 20, 2008
Principal due December 1
Variable Interest Rate (Weekly Mode)
Paid 1st Business Day of Subsequent Month

Year Ended December 31,	Principal	Interest *	Annual Debt Service	LOC Fees**	Remarketing Fees***	Annual Debt Service w/ Fees
2009	$ 420,000	$ 3,976,225	$ 4,396,225	$ 1,855,837	$ 140,000	$ 6,392,062
2010	660,000	3,961,314	4,621,314	1,852,179	139,475	6,612,968
2011	2,375,000	3,937,883	6,312,883	1,841,243	138,650	8,292,776
2012	3,090,000	3,853,566	6,943,566	1,806,462	135,681	8,885,709
2013	3,310,000	3,743,865	7,053,865	1,750,687	131,819	8,936,371
2014	3,675,000	3,626,353	7,301,353	1,695,841	127,681	9,124,875
2015	3,925,000	3,495,883	7,420,883	1,634,946	123,088	9,178,917
2016	4,335,000	3,356,538	7,691,538	1,573,893	118,181	9,383,612
2017	4,590,000	3,202,637	7,792,637	1,498,077	112,763	9,403,477
2018	4,855,000	3,039,683	7,894,683	1,422,022	107,025	9,423,730
2019	5,135,000	2,867,321	8,002,321	1,341,575	100,956	9,444,852
2020	5,430,000	2,685,018	8,115,018	1,259,675	94,538	9,469,231
2021	5,750,000	2,492,242	8,242,242	1,166,513	87,750	9,496,505
2022	6,080,000	2,288,105	8,368,105	1,071,235	80,563	9,519,903
2023	6,430,000	2,072,253	8,502,253	970,490	72,962	9,545,705
2024	6,800,000	1,843,975	8,643,975	866,134	64,925	9,575,034
2025	7,195,000	1,602,561	8,797,561	751,269	56,425	9,605,255
2026	7,615,000	1,347,124	8,962,124	632,047	47,431	9,641,602
2027	8,055,000	1,076,776	9,131,776	505,867	37,912	9,675,555
2028	8,520,000	790,807	9,310,807	373,335	27,844	9,711,986
2029	13,755,000	488,330	14,243,330	231,220	17,194	14,491,744
	$ 112,000,000	$ 55,748,459	$ 167,748,459	$ 26,100,547	$ 1,962,863	$ 195,811,869

* Estimated average weekly rate for March 19, 2008 through maturity: 3.5502%

** LOC Fees line item above includes the Facility Fee, Fronting Fee, and Payment Fee.
Facility Fees are charged as a percentage of a Stated Amount, and are paid quarterly. The Stated Amount is based on outstanding principal and a portion (34/365) of an additional interest calculation at 12% of the outstanding principal. The Fees start at 1.5% and continue at that rate thru December 31, 2009. After December 31, 2009, the fee will be based on the debt service coverage ratios listed below. This schedule assumes that the Debt Service Coverage Ratio will be 1.50 or less to 1 in the years 2010-2029, a Facility Fee rate of 1.50%.

Debt Service Coverage Ratio	Facility Fee Rate
1.76 or greater to 1	1.00%
1.51 to 1.75 to 1	1.25%
1.50 or less to 1	1.50%

Fronting Fees are charged as a percentage of outstanding principal every quarter, rate of: 0.185%
Payment Fee is a fee of $250 for each monthly bond payment to the LOC provider

***Remarketing fees are charged every June and December 1, based on the monthly outstanding principal during that six month period
Remarketing fee rate: 0.125%

CENTERRA METROPOLITAN DISTRICT NO. 1
FIVE YEAR SUMMARY OF CENTERRA METROPOLITAN DISTRICT NO. 2's ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2008

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy General Fund	Prior Year Assessed Valuation for Current Year Property Tax Levy Debt Service Fund	Mills Levied for Contractual Obligation General Fund	Mills Levied for Contractual Obligation Debt Service Fund	Total Property Taxes Levied	Total Property Taxes Collected	Percent Collected to Levied
2004	$ -	$ -	0.000	0.000	$ -	$ -	N/A
2005	$ 363,730	$ -	35.000	0.000	$ 12,731	$ 12,731	100.0%
2006	$ 374,750	$ -	35.000	0.000	$ 13,116	$ 10,121	77.2%
2007	$ 398,960	$ -	35.000	0.000	$ 13,964	$ 13,963	100.0%
2008	$ 422,861	$ -	52.600	0.000	$ 22,242	$ 22,068	99.2%
Estimated for calendar year ending December 31, 2009	$ 1,127,183	$ 1,028,350	42.600	6.655	$ 54,862		

Note:
Property taxes collected in any one year include collection of delinquent property taxes levied in prior years.