

CENTERRA METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

BASIC FINANCIAL STATEMENTS

December 31, 2017

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Centerra Metropolitan District No. 1
Loveland, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Centerra Metropolitan District No. 1, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

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, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison schedule on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Centerra Metropolitan District No. 1's financial statements. The individual fund schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules are fairly stated in all material respects in relation to the financial statements as a whole.

John Luttler & Associates, LLC

July 31, 2018

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, 2017.

Financial Highlights

- Liabilities exceeded assets by \$101,332,774 at the end of the fiscal year. This deficit of net position is largely due to the District being responsible for the repayment of debt used for public improvements which were subsequently dedicated to other governments.
- At December 31, 2017, the District's governmental funds reported combined ending fund balances of \$61,576,173. This combined fund balance includes \$17,173,516 of Debt Service Fund balance and \$42,675,600 of Capital Projects Fund balance.
- Total net position decreased by \$27,700,803 at the end of the fiscal year. This decrease is attributable to the issuance of additional long term debt.
- Total cash and investments increased by \$34,853,678 as compared to 2016. The increase in cash and investments is primarily due to unspent bond proceeds from the 2017 bond issuance which are restricted for the construction of capital assets.
- General Fund expenditures were \$1,437,787 for the year ended December 31, 2017. 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.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,598,974 or 111% 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 position* presents information on all of the District's assets and deferred outflows, and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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-side 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 3-5 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 6-19 of this report.

Other Information. The report includes individual fund schedules. A budgetary comparison statement has been provided in this section for the General Fund, 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 20-22 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The District’s liabilities exceeded assets by \$101,332,774 at the close of the most recent fiscal year.

Net Position

	December 31,	
	<u>2017</u>	<u>2016</u>
Current assets	\$ 62,608,343	\$ 27,738,229
Capital assets	29,450,971	34,269,346
Deferred outflow of derivative instruments	-	15,374,033
Total assets	<u>92,059,314</u>	<u>77,381,608</u>
Current liabilities	1,803,062	3,451,870
Long-term obligations	191,589,026	133,037,106
Liability for derivative instruments	-	14,524,603
Total liabilities	<u>193,392,088</u>	<u>151,013,579</u>
Net investment in capital assets	(162,138,055)	(27,337,228)
Restricted	59,923,116	23,882,780
Unrestricted	882,165	(70,177,523)
Total net position	<u>#####</u>	<u>\$ (73,631,971)</u>

The District’s current assets increased \$34,870,114 mainly due to increases in cash and investments of \$34,853,678. The cash and investments are used mainly to construct capital assets and make debt payments.

Change in Net Position

	December 31,	
	2017	2016
Revenue		
General revenue		
LURA revenues	\$ 11,708,226	\$ 11,097,858
Net investment income and other income	535,210	87,459
Intergovernmental revenue - District No. 2 & 3	539,626	428,417
Capital reimbursement	-	19,645
Program revenue		
Charges for services	1,359,499	1,165,274
Total revenues	\$ 14,142,561	\$ 12,798,653
Expenses		
General government	\$ 3,421,678	\$ 3,203,385
Dedication of capital assets to other governments	8,420,541	-
Interest and related costs on long-term debt	29,369,010	7,194,262
Loss on disposal of assets	632,135	-
Total expenses	\$ 41,843,364	\$ 10,397,647
Change in Net Position	(27,700,803)	2,401,006
Net Position - Beginning	(73,631,971)	(76,032,977)
Net Position - Ending	\$ (101,332,774)	\$ (73,631,971)

The District's main revenue sources for 2017 were revenues from the Loveland Urban Renewal Authority (LURA), intergovernmental revenue, Public Improvement Fees and investment income. The majority of the expenses for general government were accounting, legal, landscape maintenance, Chapungu Park, utilities, management and administration, for both administrative and capital functions. The interest and related costs on long-term debt include interest, principal, debt fees, swap payments, paying agent fees, trustee fees, interest expense on capital 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, outflow, 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.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$61,576,173. *Unassigned fund balance* constitutes \$1,598,974 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, restricted fund balance of the General Fund was \$128,083, nonspendable fund balance was \$54,083, emergency reserve fund balance was \$74,000, and the unassigned fund balance was \$1,598,974 for a total fund balance of \$1,727,057.

The Debt Service Fund has a total fund balance of \$17,173,516, all of which is restricted for repayments on debt service.

The Capital Projects Fund has a total fund balance of \$42,675,600, all of which is restricted for the construction of infrastructure.

General Fund Budgetary Highlights

During the year ended December 31, 2017, the District incurred actual expenditures of \$1,437,787 in the General Fund. The difference between actual and budgeted expenditures of \$1,495,106 was \$57,319. Notable savings were achieved in several expense categories, including savings of \$48,516 for legal.

Capital Assets

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

Long-Term Debt

On April 26, 2017, the District issued bonds in the amount of \$187,975,000 (2017 Bond) which was used to repay the 2014 Loan and provided additional funds for construction, debt issuance costs and increased debt service reserve.

At the end of the current fiscal year, the District had total outstanding loan indebtedness of \$186,700,000. The District's 2017 Bond matures on December 1, 2047. The District pays fixed interest rates between 2.70-5.00%. Interest payments are made bi-annually.

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

Next Year's Budgets and Rates

In 2018, budgeted expenditures for the General fund are \$2,139,119 and are anticipated to be primarily funded by LURA revenues and services 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, c/o Pinnacle Consulting Group, Inc., 550 West Eisenhower Blvd, Loveland, CO 80537.

BASIC FINANCIAL STATEMENTS

CENTERRA METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION
As of December 31, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 8,246,287
Restricted Cash and Investments	54,177,820
Service Fees Receivable	35,784
Construction and Landscaping Deposits	94,369
Prepaid Insurance	54,083
Capital Assets, not depreciated	7,782,134
Capital Assets, depreciated, net of accumulated depreciation	<u>21,668,837</u>
TOTAL ASSETS	<u>92,059,314</u>
LIABILITIES	
Accounts Payable	697,154
Retainage Payable	47,569
Unearned PIF Revenue	287,447
Accrued Interest on Bonds	770,892
Noncurrent Liabilities	
Due within One Year	1,340,000
Due in More Than One Year	<u>190,249,026</u>
TOTAL LIABILITIES	<u>193,392,088</u>
NET POSITION	
Net Investment in Capital Assets	(162,138,055)
Restricted for Emergencies	74,000
Restricted for Debt Service	17,173,516
Restricted for Capital Projects	42,675,600
Unrestricted	<u>882,165</u>
TOTAL NET POSITION	<u>\$ (101,332,774)</u>

The accompanying notes are an integral part of the financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenues and Change in Net Position Governmental Activities</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General Government	\$ 3,421,678	\$ -	\$ (3,421,678)
Interest and Other Fiscal Charges	<u>29,369,010</u>	<u>1,359,499</u>	<u>(28,009,511)</u>
Total Governmental Activities	<u>\$ 32,790,688</u>	<u>\$ 1,359,499</u>	(31,431,189)
GENERAL REVENUES			
Service Fees, Districts 2,3, and 5			539,626
Net Investment and Other Income			535,210
LURA Revenues			11,708,226
Loss on Disposal of Assets			(632,135)
SPECIAL ITEM			
Assets Dedicated to Other Governments			<u>(8,420,541)</u>
TOTAL GENERAL REVENUES			<u>3,730,386</u>
CHANGE IN NET ASSETS			(27,700,803)
NET ASSETS, Beginning			<u>(73,631,971)</u>
NET ASSETS, Ending			<u>\$ (101,332,774)</u>

The accompanying notes are an integral part of the financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2017

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL
ASSETS				
Cash and Investments	\$ 1,754,238	\$ -	\$ 6,492,049	\$ 8,246,287
Restricted Cash and Investments	598	17,490,408	36,686,814	54,177,820
Service Fees Receivable	34,536	1,248	-	35,784
Construction and Landscaping Deposits	-	-	94,369	94,369
Prepaid Insurance	54,083	-	-	54,083
TOTAL ASSETS	<u>\$ 1,843,455</u>	<u>\$ 17,491,656</u>	<u>\$ 43,273,232</u>	<u>\$ 62,608,343</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ 116,398	\$ 30,693	\$ 550,063	\$ 697,154
Retainage Payable	-	-	47,569	47,569
Unearned PIF Revenue	-	287,447	-	287,447
TOTAL LIABILITIES	<u>116,398</u>	<u>318,140</u>	<u>597,632</u>	<u>1,032,170</u>
FUND EQUITY				
Fund Balance				
Nonspendable	54,083	-	-	54,083
Restricted for Emergencies	74,000	-	-	74,000
Restricted for Debt Service	-	17,173,516	-	17,173,516
Restricted for Capital Projects	-	-	42,675,600	42,675,600
Unassigned	1,598,974	-	-	1,598,974
TOTAL FUND EQUITY	<u>1,727,057</u>	<u>17,173,516</u>	<u>42,675,600</u>	<u>61,576,173</u>
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND EQUITY	<u>\$ 1,843,455</u>	<u>\$ 17,491,656</u>	<u>\$ 43,273,232</u>	

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	29,450,971
Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include bonds payable \$186,700,000, accrued interest interest on bonds \$770,892, and unamortized premium on bonds \$4,889,026.	<u>(192,359,918)</u>
Net position of governmental activities	<u>\$ (101,332,774)</u>

The accompanying notes are an integral part of the financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2017

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL
REVENUES				
Service Fees, Districts 2,3, and 5	\$ 470,435	\$ 69,191	\$ -	\$ 539,626
Net Investment and Other Income	105,040	159,422	270,748	535,210
LURA Revenues	1,601,174	10,107,052	-	11,708,226
Public Improvement Fees	-	1,359,499	-	1,359,499
TOTAL REVENUES	<u>2,176,649</u>	<u>11,695,164</u>	<u>270,748</u>	<u>14,142,561</u>
EXPENDITURES				
Current				
General Government	1,437,787	-	779,175	2,216,962
Costs of Issuance	-	-	20,435,621	20,435,621
Capital Outlay	-	-	5,439,017	5,439,017
Debt Service				
Principal	-	1,275,000	1,438,481	2,713,481
Interest and Other Fiscal Charges	-	7,825,550	120,358	7,945,908
TOTAL EXPENDITURES	<u>1,437,787</u>	<u>9,100,550</u>	<u>28,212,652</u>	<u>38,750,989</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>738,862</u>	<u>2,594,614</u>	<u>(27,941,904)</u>	<u>(24,608,428)</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	187,975,000	187,975,000
Bond Premium	-	-	4,889,026	4,889,026
Payment to Escrow Agent	-	(131,510,000)	-	(131,510,000)
Transfers In	-	135,904,231	-	135,904,231
Transfers Out	-	-	(135,904,231)	(135,904,231)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>4,394,231</u>	<u>56,959,795</u>	<u>61,354,026</u>
NET CHANGE IN FUND BALANCES	738,862	6,988,845	29,017,891	36,745,598
FUND BALANCES, Beginning	<u>988,195</u>	<u>10,184,671</u>	<u>13,657,709</u>	<u>24,830,575</u>
FUND BALANCES, Ending	<u>\$ 1,727,057</u>	<u>\$ 17,173,516</u>	<u>\$ 42,675,600</u>	<u>\$ 61,576,173</u>

The accompanying notes are an integral part of the financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds	\$ 36,745,598
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is amount by which depreciation expense (\$1,879,537), disposal and dedication of assets (\$9,052,676), exceeded capital outlay \$6,113,838.	(4,818,375)
Debt proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide financial statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities. This amount bond proceeds (\$187,975,000), and premium on new bonds (\$4,889,026).	(192,864,026)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position This amount is payment to escrow agent \$131,510,000, change in accrued interest of (\$138,051), net change in derivative instruments (\$849,430), payment of developer advances \$1,438,481, and payment of bond principal of \$1,275,000.	<u>133,236,000</u>
Change in Net Position of Governmental Activities	<u>\$ (27,700,803)</u>

The accompanying notes are an integral part of the financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Centerra Metropolitan District No. 1 (District), a quasi-municipal corporation, was organized on June 14, 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), Centerra Metropolitan District No. 4 (Regional Improvements District) and Centerra Metropolitan District No. 5 (Industrial District).

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

The accounting policies of the District conform to generally accepted accounting principles ("GAAP") as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

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.

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 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. In the refinancing of the 2004 bonds in March of 2008, the RSF Corporation was released from its agreement.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, The District is not financially accountable for any other organization, including Centerra Metropolitan Districts No. 2-5, PIC Corporation and RSF Corporation, nor is the District a component unit of any other primary governmental entity, including the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Service fees, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

In the fund financial statements, 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.

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.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments (Continued)

Investments are recorded at fair value.

For purpose of presentation in the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments.

Accounts Receivable

Accounts receivable are presented net of any reserve for uncollectible accounts.

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 assets, net of related debt component of the District's net position.

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 life:

Monumentation	20 years
Landscape/Parks and recreation	20 years
Promenade infrastructure	20 years
Sanitary sewer and storm drainage	20 years
Streets	20 years

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net position. Bond issue costs are reported as deferred charges and amortized over the term of the related debt.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position

The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Position are liquid assets, which have third party limitations on their use.

Unrestricted Net Position represent assets that do not have any third party limitation on their use. While District management may have categorized and segmented portion for various purposes, the District board of directors has the unrestricted authority to revisit or alter these managerial decisions.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The District reports Prepaid Insurance as nonspendable at December 31, 2017.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fund Balance Classification (Continued)

- **Restricted** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The District also classifies the fund balances in the Debt Service and Capital Projects funds as restricted for debt service and capital improvements.
- **Committed** – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of December 31, 2017.
- **Assigned** – This classification includes amounts that are constrained by the Board of Directors intent to be used for specific purposes, but are neither restricted nor committed. As of December 31, 2017, the District does not report any assigned fund balances.
- **Unassigned** – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balance.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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 total 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.

NOTE 3: CASH AND INVESTMENTS

Cash and investments as of December 31, 2017 are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 8,246,287
Cash and Investments - Restricted	<u>54,177,820</u>
Total	<u>\$ 62,424,107</u>

A summary of deposits and investments as of December 31, 2017 follows:

Deposits	\$ 127,853
Investments	<u>62,296,254</u>
Total	<u>\$ 62,424,107</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 regulations. At December 31, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

At December 31, 2017, the District had deposits with financial institutions with a carrying amount of \$127,853. The bank balances with the financial institutions were \$254,812. Of these balances, \$250,000 was covered by federal depository insurance and \$4,812 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

Investments

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which include:

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The above investments are authorized for all funds and fund types used by Colorado municipalities.

Local Government Investment Pools

The District had invested \$62,296,254 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAM by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Local Government Investment Pools (Continued)

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables.

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The District does not hold any investments subject to these fair value measurements.

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017 is summarized below:

	Balances <u>12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>12/31/17</u>
Governmental Activities				
Capital Assets, not depreciated				
Construction in Progress	\$ 11,391,800	\$ 6,113,838	\$ 13,146,586	\$ 4,359,052
Water Rights	<u>3,423,082</u>	<u>-</u>	<u>-</u>	<u>3,423,082</u>
Total Capital Assets, not depreciated	<u>14,814,882</u>	<u>6,113,838</u>	<u>13,146,586</u>	<u>7,782,134</u>
Capital Assets, depreciated				
Monumentation	4,550,218	-	-	4,550,218
Landscape Improvements	8,726,633	1,474,156	-	10,200,789
Promenade Shops	20,988,826	-	-	20,988,826
Sanitary Sewer and Storm Drainage	118,843	-	-	118,843
Streets	<u>673,695</u>	<u>2,619,754</u>	<u>-</u>	<u>3,293,449</u>
Total Capital Assets, depreciated	<u>35,058,215</u>	<u>4,093,910</u>	<u>-</u>	<u>39,152,125</u>

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 4: CAPITAL ASSETS (Continued)

	Balances <u>12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>12/31/17</u>
Less Accumulated Depreciation				
Monumentation	2,440,374	227,510	-	2,667,884
Landscape Improvements	4,007,239	486,549	-	4,493,788
Promenade Shops	8,886,425	1,049,442	-	9,935,867
Sanitary Sewer and Storm Drainage	39,048	5,942	-	44,990
Streets	<u>230,665</u>	<u>110,094</u>	<u>-</u>	<u>340,759</u>
Total Accumulated Depreciation	<u>15,603,751</u>	<u>1,879,537</u>	<u>-</u>	<u>17,483,288</u>
 Total Capital Assets, depreciated, Net	 <u>19,454,464</u>	 <u>2,214,373</u>	 <u>-</u>	 <u>21,668,837</u>
 Governmental Activities, Capital Assets, Net	 <u>\$ 34,269,346</u>	 <u>\$ 8,328,211</u>	 <u>\$ (13,146,586)</u>	 <u>\$ 29,450,971</u>

Depreciation expense was charged to the General Government activities of the District.

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2017:

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/17</u>	Due In <u>One Year</u>
2014 Loan Payable	\$ 131,510,000	-	\$ 131,510,000	-	-
Interest - Loan	544,217	-	544,217	-	-
Capital Advances	1,438,454	27	1,438,481	-	-
Interest – Advances	88,652	31,607	120,259	-	-
2017 Bonds Payable	-	187,975,000	1,275,000	186,700,000	1,340,000
Premium on 2017 Bonds	<u>-</u>	<u>4,889,026</u>	<u>-</u>	<u>4,889,026</u>	<u>-</u>
 Total	 <u>\$ 133,581,323</u>	 <u>\$ 192,895,660</u>	 <u>\$ 134,887,957</u>	 <u>\$ 191,589,026</u>	 <u>\$ 1,340,000</u>

2014 Loan Payable

A loan agreement (2014 Loan) dated December 4, 2014 was issued in the original amount of \$139,700,000 for the purpose of: (i) refunding the District's outstanding 2011 Loan; (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; and (iii) paying certain costs related to the issuance of the 2014 Loan. The 2014 Loan establishes a variable interest rate of 1.95% plus 75% of the London Interbank Offered Rate (LIBOR), payable quarterly.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 5: LONG-TERM DEBT (Continued)

2014 Loan Payable (Continued)

On the loan issuance date, the District was funded \$128,200,000. The remaining \$11,500,000 was retained by the lender and was made available through advances until fully funded on December 9, 2015. The 2014 Loan Payable was fully refunded through the issuance of the Special Revenue Refunding and Improvement Bonds on April 26, 2017.

2017 Bonds Payable

The District issued \$187,975,000 in Special Revenue Refunding and Improvement Bonds, Series 2017 (2017 Bonds), on April 26, 2017. The proceeds from the 2017 Bonds were used to refund the 2014 Loan in the amount of \$131,510,000; terminate the 2008 swap and 2014 swap with a termination payment of \$17,138,000; fund an Improvement Project Fund for further acquisition and construction of certain public infrastructure improvements in the District required for District development, consisting generally of streets, water, sanitary sewer, park and recreation, and related improvements; and to pay certain costs related to the issuance of the 2017 Bonds. Interest accrues at a rate of 2.70% through December 1, 2019 and 5.00% from December 1, 2019 through maturity. Payments of principal and interest are due annually on December 1 and payments of interest are due annually on June 1. The Bonds mature on December 1, 2047.

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, (2) the Required Mill Levy, (3) Public Improvement Fee (PIF) Revenues, and (3) any other legally available monies which the District determines to be treated as Pledged Revenue. The loan is also secured by amounts held by the Custodian 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 an 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, if any, of actual value to assessed value of property within the District. As of December 31, 2017, the adjusted maximum mill levy is 72 mills and the adjusted minimum mill levy is 35 mills. For collection year 2017, the Centerra Metropolitan District No. 2 levied 35 debt service mills. In addition, property excluded from District No. 2 is responsible for its proportionate share of District debt at the time of exclusion. For collection year 2017, District No. 2 levied 6.655 mills on property excluded in 2007 and levied 35 mills on property excluded in 2010.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 5: LONG-TERM DEBT (Continued)

Future Debt Service Requirements

Annual debt service requirements for the Bonds Payable at December 31, 2017 are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,340,000	\$ 9,250,706	\$ 10,590,706
2019	2,325,000	9,214,526	11,539,526
2020	3,765,000	9,151,750	12,916,750
2021	5,915,000	8,963,500	14,878,500
2022	8,185,000	8,667,750	16,852,750
2023-2027	57,385,000	36,091,750	93,476,750
2028-2032	24,635,000	23,356,500	47,991,500
2033-2037	16,940,000	19,192,250	36,132,250
2038-2042	22,575,000	14,421,750	36,996,750
2043-2047	<u>43,635,000</u>	<u>8,097,000</u>	<u>51,732,000</u>
Total Debt Service Requirements	<u>\$ 186,700,000</u>	<u>\$ 146,407,482</u>	<u>\$ 333,107,482</u>

Funding and Reimbursement Agreement (Capital Costs)

On February 9, 2015, the District entered into two Advance and Reimbursement Agreements with Poudre Valley Health Care, Inc., (“PVHS”), funding and repayment of costs for the design and construction of Hahns Peak Drive. PVHS advanced funds to the District in a principal amount not to exceed \$125,000 (Design) and \$1,448,258 (Construction), respectively. The two advances bear simple interest at the rate of two percent plus the Federal Reserve Bank Prime Rate, or six percent, whichever is greater. In April 2017, the District paid off the balance of the capital advances in the amount of \$1,438,481, plus accrued interest of \$31,607, from proceeds of 2017 Bonds.

Interest Rate Swaps

On March 20, 2008, the District entered into a swap agreement with RBC for the notional amount of \$112,000,000 (referred to as the 2008 swap) and on December 4, 2014, the District entered into an additional swap agreement with RBC for the notional amount of \$18,500,000 (referred to as the 2014 swap).

The District’s two interest rate swap agreements in connection with the 2014 Loan were terminated in April 2017 in conjunction with the issuance of the 2017 Bonds. The agreements had been made with Royal Bank of Canada (RBC). The District terminated the swaps by paying a termination payment to RBC in the amount of \$17,138,000, which consisted of \$16,010,000 for the 2008 swap and \$1,128,000 for the 2014 swap, from the proceeds of the 2017 Bonds.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 5: LONG-TERM DEBT (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, 2017, the District had authorized but unissued indebtedness in the amount of \$4,722,058,391.

NOTE 6: RELATED PARTIES

The owners of portions of the property served by the District are Centerra Investments, LLC (CI, LLC); Centerra Properties West, LLC (CPW); and SMP4 Investments, Inc. (SMP4). The Developer of the property is affiliated with CI, LLC, CPW, and SMP4. The members of the Board of Directors are employees, owners or are otherwise associated with the Developer and have disclosed any potential conflicts of interest in taking action on matters brought before the Board. The District has repaid all amounts owed to CI, LLC, CPW, and SMP4 as of December 31, 2017.

NOTE 7: 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 natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2017. 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 the past three years.

The District pays annual premiums to the Pool for liability, property, and public officials' 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 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.

CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 8: COMMITMENTS AND CONTINGENCIES

Master Financing Agreement

The Master Financing Agreement (MFA), dated January 20, 2004, was entered into among the District, the City, the Loveland Urban Renewal Authority (LURA), the Developer, Centerra Public Improvement Collection Corporation, and Centerra Public Improvement Development Corporation. 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.

TABOR Amendment

TABOR Amendment - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2017, the emergency reserve of \$74,000 was recorded in the General Fund.

NOTE 9: DEFICIT NET POSITION

The District's unrestricted net position as of December 31, 2017 totaled (\$101,332,774). This deficit amount was a result of the District being responsible for the financing and repayment of debt issued for the construction of public improvements which were conveyed to other governmental entities and which assets were removed from the District's financial records.

REQUIRED SUPPLEMENTAL INFORMATION

CENTERRA METROPOLITAN DISTRICT NO. 1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2017

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Service Fees, District No. 2	\$ 425,069	\$ 470,052	\$ 44,983
Service Fees, District No. 3	176	-	(176)
Service Fees, District No. 5	1,623	383	(1,240)
Net Investment and Other Income	7,500	105,040	97,540
LURA Revenues (O&M)	1,060,738	1,601,174	540,436
TOTAL REVENUES	1,495,106	2,176,649	681,543
EXPENDITURES			
Current			
General Government			
Accounting and Financial Management	157,607	156,198	1,409
Audit	32,500	16,750	15,750
Directors' Fees	3,000	4,699	(1,699)
District Management and Administration	182,972	182,976	(4)
Engineering and Other Professional Services	2,000	1,730	270
Hardscape Maintenance	82,875	72,492	10,383
Insurance	31,267	33,393	(2,126)
Landscape Maintenance and Repairs	638,885	648,246	(9,361)
Legal	160,000	111,484	48,516
Major Repairs and Replacement	70,000	73,693	(3,693)
Office, Dues and Other	8,000	6,209	1,791
Utilities	126,000	129,917	(3,917)
TOTAL EXPENDITURES	1,495,106	1,437,787	57,319
NET CHANGE IN FUND BALANCE	-	738,862	738,862
FUND BALANCE, Beginning	1,046,425	988,195	(58,230)
FUND BALANCE, Ending	\$ 1,046,425	\$ 1,727,057	\$ 680,632

See the accompanying independent auditors' report.

INDIVIDUAL FUND SCHEDULES

CENTERRA METROPOLITAN DISTRICT NO. 1

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Service Fees, District No. 2	\$ 23,964	\$ 23,964	\$ 67,308	\$ 43,344
Service Fees, District No. 3	-	-	180	180
Service Fees, District No. 5	-	-	1,703	1,703
Net Investment and Other Income	15,153	15,153	159,422	144,269
LURA Revenues (Debt Service)	9,802,653	9,802,653	10,107,052	304,399
Public Improvement Fees (PIF)	1,412,554	1,412,554	1,359,499	(53,055)
TOTAL REVENUES	11,254,324	11,254,324	11,695,164	440,840
EXPENDITURES				
Debt Service				
Principal	4,587,500	1,500,000	1,275,000	225,000
Interest and Other Fiscal Charges	6,416,896	8,782,591	7,704,271	1,078,320
Loan Fees	188,400	80,117	59,081	21,036
City of Loveland, Collection Fees	61,528	61,528	62,198	(670)
TOTAL EXPENDITURES	11,254,324	10,424,236	9,100,550	1,323,686
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	830,088	2,594,614	1,764,526
OTHER FINANCING SOURCES (USES)				
Payment to Escrow Agent	-	(131,510,000)	(131,510,000)	-
Transfers In	-	135,906,057	135,904,231	(1,826)
TOTAL OTHER FINANCING SOURCES (USES)	-	4,396,057	4,394,231	(1,826)
NET CHANGE IN FUND BALANCE	-	5,226,145	6,988,845	1,762,700
FUND BALANCE, Beginning	10,101,854	10,101,854	10,184,671	82,817
FUND BALANCE, Ending	<u>\$ 10,101,854</u>	<u>\$ 15,327,999</u>	<u>\$ 17,173,516</u>	<u>\$ 1,845,517</u>

See the accompanying independent auditors' report.

CENTERRA METROPOLITAN DISTRICT NO. 1

CAPITAL PROJECTS FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Net Investment and Other Income	\$ 5,000	\$ 5,000	\$ 270,748	\$ 265,748
TOTAL REVENUES	<u>5,000</u>	<u>5,000</u>	<u>270,748</u>	<u>265,748</u>
EXPENDITURES				
Current				
General Government				
District Management	35,000	35,000	18,306	16,694
District Master Planning	25,000	25,000	-	25,000
Engineering and Other Professional Services	75,000	75,000	83,958	(8,958)
Major Repairs and Replacement	500,000	500,000	676,911	(176,911)
Costs of Issuance	-	20,435,621	20,435,621	-
Capital Outlay	6,605,778	13,064,821	5,439,017	7,625,804
Debt Service				
Principal	-	1,438,481	1,438,481	-
Interest and Other Fiscal Charges	-	120,358	120,358	-
TOTAL EXPENDITURES	<u>7,240,778</u>	<u>35,694,281</u>	<u>28,212,652</u>	<u>7,481,629</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,235,778)</u>	<u>(35,689,281)</u>	<u>(27,941,904)</u>	<u>7,747,377</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	195,984,276	187,975,000	(8,009,276)
Bond Premium	-	-	4,889,026	4,889,026
Transfers Out	-	(135,906,057)	(135,904,231)	1,826
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>60,078,219</u>	<u>56,959,795</u>	<u>(3,118,424)</u>
NET CHANGE IN FUND BALANCE	<u>(7,235,778)</u>	<u>24,388,938</u>	<u>29,017,891</u>	<u>4,628,953</u>
FUND BALANCE, Beginning	<u>14,015,583</u>	<u>14,015,583</u>	<u>13,657,709</u>	<u>(357,874)</u>
FUND BALANCE, Ending	<u>\$ 6,779,805</u>	<u>\$ 38,404,521</u>	<u>\$ 42,675,600</u>	<u>\$ 4,271,079</u>

See the accompanying independent auditors' report.