



CENTERRA METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2006



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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, 2006, 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, 2006, and the respective changes in its 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 25 through 27 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.

Reynolds Henrie & Associates, P.C.

May 11, 2007



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, 2006.

Financial Highlights

- Liabilities exceeded assets by \$33,038,028 at the end of the fiscal year. This deficit of net assets was created by two types of transactions. The District funded debt service interest payments, letter of credit payments, developer advance repayments, and remarketing fees from cash set aside from the 2004 bond issue, which caused \$3,429,830 of the deficit in the current year. The other major component of the net asset deficit was the District's dedication of capital assets to other governments of \$20,479,608 which were also funded from cash received from the 2004 Bonds.
- As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$10,207,854. This combined fund balance includes \$4,122,364 of Debt Service Fund balance, and \$5,986,527 of Capital Projects Fund balance.
- Total net assets decreased by \$23,705,620. A significant portion of this decrease is attributable to the District's funding of debt service payments from bond proceeds as described above and \$20,479,608 is due to infrastructure assets that were conveyed to other governments.
- Total cash and investments decreased by \$9,150,633 as compared to 2005. The decrease in cash and investments is a direct result of expending 2004 Bond proceeds to construct infrastructure and to fund debt service.
- General Fund expenditures were \$364,439 for the year ended December 31, 2006. 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 \$72,697, or 20% 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 7-23 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 25-26 of this report. Also, a schedule of debt service requirements to maturity on the District's 2004 Variable Rate Revenue Bonds is included on page 27.

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 \$33,038,028 at the close of the most recent fiscal year.

Net Assets

	<u>2006</u>	<u>2005</u>
Current assets	\$ 11,847,191	\$ 20,355,570
Other assets	1,698,098	1,903,782
Capital assets	<u>15,874,264</u>	<u>28,127,538</u>
Total assets	<u>29,419,553</u>	<u>50,386,890</u>
Current liabilities	1,639,337	2,381,559
Long-term obligations	<u>60,818,244</u>	<u>57,337,739</u>
Total liabilities	<u>62,457,581</u>	<u>59,719,298</u>
Invested in capital, net of related debt	5,456,074	-
Restricted	4,135,353	7,991
Unrestricted net assets	<u>(42,629,455)</u>	<u>(9,340,399)</u>
Total net assets	<u>\$ (33,038,028)</u>	<u>\$ (9,332,408)</u>

The District's current assets decreased \$8,508,379 mainly due to decreases in cash and investments of \$9,150,633. The cash and investments were used to construct \$8,582,844 in capital assets and to pay for debt service related costs of \$3,759,935.

The District transferred \$20,479,608 of its capital assets to other governments during 2006, and also used cash from the 2004 Bond proceeds to pay debt related costs of \$3,759,935. Both of these transactions contributed to the decrease in unrestricted net assets during 2006.

Change in Net Assets

	2006	2005
Revenue		
General revenue		
Investment income	\$ 701,722	\$ 934,892
Intergovernmental revenue - District No. 2	37,797	-
Program revenue		
Charges for services	2,023,198	274,060
Total revenue	2,762,717	1,208,952
Expenses		
General government	2,228,794	635,098
Dedication of capital assets to other governments	20,479,608	4,460,089
Interest and related costs on long-term debt	3,759,935	3,722,001
Total expenses	26,468,337	8,817,188
Change in net assets	(23,705,620)	(7,608,236)
Net assets - Beginning	(9,332,408)	(1,724,172)
Net assets - Ending	\$ (33,038,028)	\$ (9,332,408)

The District's main revenue sources for 2006 were public improvement fees, investment income earned from the proceeds of the 2004 Bonds and revenues from the Loveland Urban Renewal Authority. The majority of the expenses for general government were accounting, legal, management and engineering, for both administrative and capital functions, totaling \$1,779,006. 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 \$10,207,854. *Unreserved fund balance* constitutes \$72,697 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 \$26,266, and the unreserved fund balance of the general fund was \$72,697 out of a total fund balance of \$98,963.

The Debt Service Fund has a total fund balance of \$4,122,364, all of which is restricted for repayments on debt service.

The Capital Projects Fund has a total fund balance of \$5,986,527, all of which is restricted for the construction of infrastructure.

General Fund Budgetary Highlights

The District's total expenditures for 2006 did not exceed the original budgeted appropriation. The difference between the original budgeted expenditures of \$550,250 and the actual expenditures of \$364,439 was \$185,811. Notable savings were achieved in several expense categories. There was \$71,942 in unutilized budget for the line item landscape maintenance, repairs and snow removal.

Capital Assets

The District invested \$8,582,844 in capital assets for its governmental activities for the period ended December 31, 2006. This investment in capital assets includes construction of streets, water, sewer, storm sewer, park and recreation, and transportation and traffic improvements. 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 2006, \$20,479,608 of 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

At the end of the current fiscal year, the District had total outstanding bond indebtedness of \$57,000,000. The District's 2004 Bonds are due December 1, 2029 and pay a synthetically fixed interest rate of 2.89% through November 1, 2007 and 4.25% from November 1, 2007 through maturity due to swap agreements in place at December 31, 2006. 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 of \$3,700,636 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 \$117,608 for the accrued interest on the funding the Developer provided.

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

Next Year's Budgets and Rates

Significant increases are anticipated to operate the District in 2007 for items such as landscape maintenance, utilities, and repairs and maintenance, as well as for items such as accounting, management, legal, and general engineering. Budgeted expenditures for the General Fund in 2007 are \$721,051 and are anticipated to be primarily funded by PIF and LURA revenues, with a significant amount of funding also coming from 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, 6399 South Fiddler's Green Circle, Suite 100, Greenwood Village, CO 80111.

BASIC FINANCIAL STATEMENTS

CENTERRA METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET ASSETS
December 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 94,014
Cash and investments - Restricted	10,978,234
Interest receivable	45,763
Service fees receivable	2,261
Developer advance receivable	559,763
PIF revenue receivable	153,879
Prepaid insurance expense	13,277
Deferred charges (net of accumulated amortization)	1,698,098
Capital assets	<u>15,874,264</u>
Total assets	<u>29,419,553</u>
LIABILITIES	
Accounts payable	901,426
Bond interest payable	137,306
Retainage payable	329,425
Deferred URA revenue	271,180
Noncurrent liabilities	
Due in more than one year - Bonds payable	57,000,000
Due in more than one year - Developer advance payable	3,700,636
Due in more than one year - Interest on Developer advance payable	<u>117,608</u>
Total liabilities	<u>62,457,581</u>
NET ASSETS	
Restricted for:	
Invested in capital assets, net of related debt	5,456,074
Emergency reserves	12,989
Debt service	4,122,364
Unrestricted	<u>(42,629,455)</u>
Total net assets	<u>\$ (33,038,028)</u>

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, 2006

<u>Functions/Programs</u>	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government:				
Government activities:				
General government	\$ 2,228,794	\$ 1,676,006	\$ -	\$ (552,788)
Dedication of capital assets to other government	20,479,608	-	-	(20,479,608)
Interest and related costs on long-term debt	3,759,935	347,192	-	(3,412,743)
	<u>\$ 26,468,337</u>	<u>\$ 2,023,198</u>	<u>\$ -</u>	<u>(24,445,139)</u>

General revenues:

Net investment income	701,722
Intergovernmental revenue - District No. 2	37,797
Total general revenues	<u>739,519</u>
Change in net assets	(23,705,620)
Net assets - Beginning	(9,332,408)
Net assets - Ending	<u><u>\$(33,038,028)</u></u>

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, 2006**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 94,014	\$ -	\$ -	\$ 94,014
Cash and investments - Restricted	12,989	4,559,934	6,405,311	10,978,234
Interest receivable	172	18,474	27,117	45,763
Receivable - Service fees	2,261	-	-	2,261
Developer advance receivable	-	-	559,763	559,763
PIF revenue receivable	-	153,879	-	153,879
Prepaid insurance expense	13,277	-	-	13,277
TOTAL ASSETS	\$ 122,713	\$ 4,732,287	\$ 6,992,191	\$ 11,847,191
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 23,750	\$ 201,437	\$ 676,239	\$ 901,426
Bond interest payable	-	137,306	-	137,306
Retainage payable	-	-	329,425	329,425
Deferred URA revenue	-	271,180	-	271,180
Total liabilities	23,750	609,923	1,005,664	1,639,337
FUND BALANCES				
Reserved for:				
Prepays	13,277	-	-	13,277
Emergency reserves	12,989	-	-	12,989
Debt service	-	4,122,364	-	4,122,364
Capital projects	-	-	5,986,527	5,986,527
Unreserved, reported in:				
General Fund	72,697	-	-	72,697
Total fund balances	98,963	4,122,364	5,986,527	10,207,854
TOTAL LIABILITIES AND FUND BALANCES	\$ 122,713	\$ 4,732,287	\$ 6,992,191	

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.	15,874,264
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Deferred charges, net	1,698,098
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds payable	(57,000,000)
Developer advance payable	(3,700,636)
Developer advance interest payable	(117,608)
Net assets of governmental activities	\$ (33,038,028)

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 BALANCE
GOVERNMENTAL FUNDS
Year Ended December 31, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Service fees, District No. 2	\$ 37,797	\$ -	\$ -	\$ 37,797
Net investment income	10,032	270,567	421,123	701,722
Public improvement fees	142,563	153,879	1,289,680	1,586,122
URA revenues	242,563	193,313	-	435,876
Miscellaneous	-	-	1,200	1,200
Total revenues	<u>432,955</u>	<u>617,759</u>	<u>1,712,003</u>	<u>2,762,717</u>
EXPENDITURES				
Current				
Accounting and audit	54,684	-	-	54,684
District management	133,115	-	300,000	433,115
Legal	66,677	-	28,803	95,480
Insurance and bonds	9,825	-	-	9,825
Landscape maintenance, repairs, snow removal	28,058	-	-	28,058
Engineering	7,049	-	1,188,678	1,195,727
Utilities	47,037	-	-	47,037
Miscellaneous	8,358	-	-	8,358
Debt service				
Interest expense on Developer advances	9,636	-	4,961	14,597
Paying agent/trustee/banking fees	-	12,794	-	12,794
Interest expense - Bonds	-	1,664,872	-	1,664,872
Letter of credit fees	-	1,489,651	-	1,489,651
Letter of credit fronting fees	-	50,741	-	50,741
Remarketing fees	-	56,922	-	56,922
City of Loveland collection fees	-	154,850	-	154,850
Capital outlay	-	-	8,582,844	8,582,844
Total expenditures	<u>364,439</u>	<u>3,429,830</u>	<u>10,105,286</u>	<u>13,899,555</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>68,516</u>	<u>(2,812,071)</u>	<u>(8,393,283)</u>	<u>(11,136,838)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	10,885	191,769	202,654
Operating transfers out	-	(191,769)	(10,885)	(202,654)
Developer advance	-	-	3,745,353	3,745,353
Repay Developer advance	(122,287)	-	(260,169)	(382,456)
Total other financing sources (uses)	<u>(122,287)</u>	<u>(180,884)</u>	<u>3,666,068</u>	<u>3,362,897</u>
NET CHANGE IN FUND BALANCE	(53,771)	(2,992,955)	(4,727,215)	(7,773,941)
FUND BALANCE - BEGINNING OF YEAR	<u>152,734</u>	<u>7,115,319</u>	<u>10,713,742</u>	<u>17,981,795</u>
FUND BALANCE - END OF YEAR	<u>\$ 98,963</u>	<u>\$ 4,122,364</u>	<u>\$ 5,986,527</u>	<u>\$ 10,207,854</u>

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 BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2006**

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

Net change in fund balance - Total governmental funds \$ (7,773,941)

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. During the current period there were no depreciable assets. Therefore, this is the amount of capital outlay in the current period.

Capital outlay	8,582,844
Dedication of infrastructure to other governments	(20,479,608)
Depreciation	(356,510)

The letter of credit origination fee has been expensed in the fund financial statements but represents a long term asset and has been capitalized in the statement of net assets. This amount represents the current year's amortization of this asset. (172,911)

The issuance of long-term debt (e.g., bonds, leases) 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 long-term debt and related items.

Developer advances received	(3,745,353)
Repayment of Developer advances	382,456
Change in accrued interest on developer advances	(109,824)
Amortization expense - Bond issue costs	(32,773)
Changes in net assets of governmental activities	<u>\$ (23,705,620)</u>

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 REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2006

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE			
Service fees, District No. 2	\$ 13,903	\$ 37,797	\$ 23,894
Net investment income	-	10,032	10,032
Public improvement fees	237,000	142,563	(94,437)
URA revenues	333,250	242,563	(90,687)
Total revenue	<u>584,153</u>	<u>432,955</u>	<u>(151,198)</u>
EXPENDITURES			
Current			
Accounting and audit	73,000	54,684	18,316
District management	120,000	133,115	(13,115)
Election costs	7,500	-	7,500
Engineering	20,000	7,049	12,951
Legal	125,000	66,677	58,323
Insurance and bonds	15,000	9,825	5,175
Interest expense on Developer advances	-	9,636	(9,636)
Landscape maintenance, repairs, snow removal	100,000	28,058	71,942
Utilities	30,000	47,037	(17,037)
Miscellaneous	12,000	8,358	3,642
Contingency	47,750	-	47,750
Total expenditures	<u>550,250</u>	<u>364,439</u>	<u>185,811</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>33,903</u>	<u>68,516</u>	<u>34,613</u>
OTHER FINANCING SOURCES (USES)			
Repay Developer advance	(20,000)	(122,287)	(102,287)
Total other financing sources (uses)	<u>(20,000)</u>	<u>(122,287)</u>	<u>(102,287)</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDI- TURES AND OTHER FINANCING USES	13,903	(53,771)	(67,674)
FUND BALANCE - BEGINNING OF YEAR	9,106	152,734	143,628
FUND BALANCE - END OF YEAR	<u>\$ 23,009</u>	<u>\$ 98,963</u>	<u>\$ 75,954</u>

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, 2006

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

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 Corporation and RSF Corporations have entered into an agreement with the District whereby on June 4, 2004, PIC and RSF Corporation have agreed to remit to the District certain revenue 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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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 and its component units. 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 and its component units. 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 property, plant and equipment are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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 susceptible to accrual are service fees, public improvement fees and retail sales fees. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District.

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.

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, 2006, supplementary appropriations approved by the District's Board of Directors modified the appropriation from \$3,541,327 to \$3,631,769 in the Debt Service Fund.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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 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. Assets included in construction in progress that the District will convey to other entities are not included in the calculation of invested in capital assets, net of related debt.

There is a two year warranty period on the assets that were conveyed to the City of Loveland. The District anticipates costs, if any, associated with the warranty will be insignificant.

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. No depreciation expenses had been computed since all capital assets were included in construction in progress at year end.

Amortization

Bond Issue Costs and Organizational Costs

In the government-wide financial statements, bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The letter of credit origination fee is amortized over a period of five years using the straight-line method.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The reserved fund balance in the Debt Service Fund in the amount of \$4,122,364 is to be used exclusively for future debt service payments.

The reserved fund balance in the Capital Projects Fund in the amount of \$5,986,527 is to be used exclusively for the construction of infrastructure.

Emergency Reserves, as required by Article X, Section 20 of the Constitution of the State of Colorado, are established in the amount of \$12,989.

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, 2006, are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 94,014
Cash and investments - Restricted	<u>10,978,234</u>
Total cash and investments	<u>\$ 11,072,248</u>

Cash and investments as of December 31, 2006, consist of the following:

Deposits with financial institutions	\$ 154,373
Investments	<u>10,917,875</u>
Total cash and investments	<u>\$ 11,072,248</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash Deposits

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, 2006, the District's cash deposits had a bank balance of \$422,585 that was either federally insured or collateralized by PDPA, and a carrying balance of \$154,373.

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- . 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

Colorado Local Government Liquid Asset Trust (Colotrust) is a local government investment pool, and is rated AAAM by Standard & Poor's.

As of December 31, 2006, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Liquid Asset Trust (Colotrust)	Less than one year	\$ 289,353
U.S. Treasury money market fund		<u>10,628,522</u>
		<u>\$ 10,917,875</u>

COLOTRUST

During 2006, 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. 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, 2006, the Centerra Metropolitan District No. 1 had \$289,353 invested in COLOTRUST PLUS+.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

U.S. Treasury Money Market Fund

During 2006, the debt service money that was included in the trust accounts at American National Bank (ANB) was invested in the SEI Daily Income Treasury Portfolio. This portfolio is a money market fund that is managed by SEI Investments and each share is equal in value to \$1.00. The fund is AAA rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The average maturity of the underlying securities is 90 days or less. As of December 31, 2006, the District had \$10,628,522 invested in the SEI fund.

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2006, follows:

	<u>Balance at January 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2006</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 28,127,538	\$ 8,582,844	\$ 32,656,800	\$ 4,053,582
Water rights	-	3,218,998	-	3,218,998
Total capital assets, not being depreciated	<u>28,127,538</u>	<u>11,801,842</u>	<u>32,656,800</u>	<u>7,272,580</u>
Capital assets, being depreciated:				
Monumentation	-	4,304,919	-	4,304,919
Landscape improvements	-	4,653,276	-	4,653,276
Total capital assets, being depreciated	<u>-</u>	<u>8,958,194</u>	<u>-</u>	<u>8,958,194</u>
Less accumulated depreciation for:				
Monumentation	-	181,045	-	181,045
Landscape improvements	-	175,466	-	175,466
Total accumulated depreciation	<u>-</u>	<u>356,510</u>	<u>-</u>	<u>356,510</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>8,601,684</u>	<u>-</u>	<u>8,601,684</u>
Governmental activities capital assets, net	<u>\$ 28,127,538</u>	<u>\$ 20,403,526</u>	<u>\$ 32,656,800</u>	<u>\$ 15,874,264</u>

Capital assets totaling \$20,479,608 were conveyed to other governments during 2006.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 - LONG-TERM OBLIGATIONS

The District's outstanding long-term obligations at December 31, 2006, were as follows:

	<u>Balance at January 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2006</u>	<u>Due Within One Year</u>
Variable rate revenue bonds:					
2004 Bonds	\$ 57,000,000	\$ -	\$ -	\$ 57,000,000	\$ -
Developer advances	337,739	3,745,353	(382,456)	3,700,636	-
Interest on Developer Advances	7,784	124,421	(14,597)	117,608	-
	<u>\$ 57,345,523</u>	<u>\$ 3,869,774</u>	<u>\$ (397,053)</u>	<u>\$ 60,818,244</u>	<u>\$ -</u>

The detail of the District's long-term obligations is as follows:

Variable Rate Revenue Bonds, Series 2004, were issued on October 15, 2004, in the original amount of \$57,000,000. The bonds are term bonds due on December 1, 2029, with mandatory redemption principal payments starting at \$1,290,000 on December 1, 2008, 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, or flexed pricing mode by giving proper notice in accordance with the provisions in the Indenture.

Letter of Credit

Concurrently with the issuance of the bonds, the District established an irrevocable direct pay Letter of Credit with BNP Paribas (BNP) in the amount of \$57,637,151. The Letter of Credit expires October 25, 2009, unless extended and subject to certain acts of default as defined in the Indenture and the Reimbursement Agreement. A letter of credit origination fee was paid at bond closing and has been capitalized and will be amortized over the life of the letter of credit. Letter of Credit facility fees are paid quarterly at an annual rate of up to 4.0% per annum on the daily average undrawn Stated Amount of the Letter of Credit. The Facility Fee Rate through December 31, 2006, was 2.50% per annum and thereafter the Facility Fee Rate will be determined by the debt service coverage ratio for the immediately preceding fiscal year as follows:

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Coverage Ratio	Facility Fee Rate
<1.50%	1.50%
1.51% - 1.75%	1.25%
>1.75%	1.00%
Default	4.00%

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) property tax revenues levied by Centerra Metropolitan Districts No. 2, 3 and 4 (defined as District Tax Revenue). Also, the Custodial Agreement requires that the following Bank Collateral Revenues are to be deposited in the following subaccounts of the Revenue Bond Fund: i) into the PIF Revenue Account all Public Improvement Fee Revenues (PIF); ii) into the S/O Tax Revenue Account, all specific ownership tax revenues; and iii) into the RSF Revenue Account, all Centerra Retail Sales Fee (RSF) 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 District Tax Revenue Account, and third, from the PIF Bond Account.

- i) Payment of Letter of Credit Fees due to the Letter of Credit Bank
- ii) Payment for operations of the District, not to exceed 25% of the District's annual operating budget in any one month and not to exceed \$600,000 for fiscal years 2005 and 2006, or \$900,000 for 2007, or \$1,200,000 for 2008 and for each fiscal year thereafter.
- iii) Payments on debt service on the 2004 Bonds.
- iv) Payments to replenish the Debt Service Reserve Fund to the extent that the Debt Service Reserve Fund Requirement is not being met. The Debt Service Reserve Fund Requirement is \$4,117,300, and at December 31, 2005, the Debt Service Reserve Fund has a balance of \$4,117,300.
- v) Payments on the swap agreements with BNP and RBC (see Note 8).

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

- vi) Payment to the Loveland Urban Renewal Authority (LURA) as the Regional Allocation pursuant to the terms of the Master Financing Agreement.

Collateral Revenue Fund

Amounts in the Collateral Revenue 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 PIF Revenue Account, second from the S/O Tax Revenue Account, and third from the RSF Revenue Account:

- i) From amount on deposit in the PIF Revenue Account and the RSF 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, Pledged PIF Revenues.
- iii) To the Letter of Credit Bank from any Collateral Revenue Fund for amounts remaining due under the Reimbursement Agreement.
- iv) On and before December 31, 2012, to the Supplemental Bank Reserve Fund to the extent that the amount on deposit is less than the Supplemental Bank Reserve Requirement of \$3,000,000. The RSF Corporation has a letter of credit for \$3,000,000 to satisfy this obligation.
- v) Solely from the amounts on deposit in the PIF Revenue Account to the LURA or otherwise as directed by the District.
- vi) Amounts on deposit in the Collateral Revenue Fund which have not otherwise been transferred as described above shall be released from the Collateral Revenue Fund and PIF revenue shall be disbursed to the PIF Revenue Account, specific ownership taxes shall be disbursed to the District for any lawful purpose, and RSF Revenue shall be disbursed to the RSF Corporation.

Monies held in the Collateral Revenue Fund are recorded as a payable at year end since these amounts are due to the PIC Corporation and RSF Corporation under the flow of funds outlined above. At December 31, 2006, the balance in the Collateral Revenue Fund recorded as a payable was \$401.

The District entered into two separate swap agreements during 2004 and an additional swap agreement in 2005 for the purpose of creating a synthetic fixed interest rate on their 2004 Bonds (see Note 8).

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term obligations, using a synthetic fixed interest rate of 2.89% through October 31, 2007 and a synthetic fixed rate of 4.25% from November 1, 2007 through 2029, will mature as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ -	\$ 1,711,900	\$ 1,711,900
2008	1,290,000	2,422,506	3,712,506
2009	1,595,000	2,367,681	3,962,681
2010	1,655,000	2,299,893	3,954,893
2011	1,735,000	2,229,555	3,964,555
2012-2016	10,535,000	9,924,193	20,459,193
2017-2021	13,145,000	7,472,576	20,617,576
2022-2026	16,395,000	4,415,117	20,810,117
2027-2029	10,650,000	873,800	11,523,800
	<u>\$ 57,000,000</u>	<u>\$ 33,717,221</u>	<u>\$ 90,717,221</u>

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. Since the District has conveyed approximately 80% of the infrastructure assets that it has constructed to other governments, the below calculation of invested in capital assets net of related debt allocates approximately 20% of 1) bond issuance costs, 2) the outstanding principal of General Obligation Bonds, and 3) portion of debt related to restricted cash and investments, to invested in capital, net of related debt.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 - NET ASSETS (CONTINUED)

	Governmental Activities
Invested in capital assets, net of related debt:	
Capital assets, net	\$ 15,874,264
Deferred charges, net	246,558
Noncurrent portion of long-term obligations	(11,495,076)
Portion of debt related to restricted cash and investments	830,328
	\$ 5,456,074

The District's unrestricted net assets as of December 31, 2006 totaled \$(33,038,028). 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 dedicated to other entities for maintenance.

NOTE 7 - RELATED PARTY

The members of the Board of Directors are employees, owners or are otherwise associated with McWhinney Enterprises (Developer) and may have conflicts of interest in dealing with the District.

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 recordation 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 cause 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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 8 - AGREEMENTS (CONTINUED)

Funding and Reimbursement Agreement (Operations and Maintenance Costs)

On May 1, 2005, the District entered into a Restated Funding and Reimbursement Agreement for Operations and Maintenance Costs with the Developer. Under the terms of this agreement the Developer agreed to loan to the District up to \$1,000,000 during the calendar years 2004-2006 for the purpose of funding operations and maintenance costs of the District. These loans take the form of notes from the District to the Developer. The notes accrue interest of 2% plus the current Federal Reserve Board Prime and are considered to be multiple year obligations. Interest compounds at the end of the fiscal year.

Funding and Reimbursement Agreement (Capital Costs)

On July 29, 2004, the District entered into a Funding and Reimbursement Agreement with the Developer for capital costs. Under the terms of this agreement the Developer agreed to loan the District up to \$23,270,000 during the calendar years 2004 and 2005 for the purpose of constructing public facilities as outlined in the District's service plan and funding organization costs incurred establishing the District. Loans take the form of notes from the District to the Developer. The notes accrue interest of 2% plus the current Federal Reserve Board Prime and are considered to be multiple year obligations. Interest compounds at the end of the fiscal year.

On December 1, 2005, the District entered into four separate Advance and Reimbursement Agreements for Capital Costs with four different Developer entities. The four agreements call for the Developer entity to loan the District up to \$9,280,000, \$10,800,000, \$500,000 and \$3,000,000, respectively, during calendar years 2006 and 2007 for the purpose of funding the construction of certain public improvements as outlined in the District's service plan. All four agreements are secured by promissory 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 compounds annually.

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. Under the terms of this agreement the Developer agreed to design, construct and complete certain public improvements as outlined in the agreement. The District agreed to purchase these improvements from the Developer upon formal acceptance of the improvements by the District's Board of Directors.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 8 - AGREEMENTS (CONTINUED)

Interest Rate Swaps

On October 26, 2004, the District entered into swap agreements with BNP Paribas (BNP) for the notional amount of \$28,500,000 and with Royal Bank of Canada (RBC) for the notional amount of \$28,500,000 (collectively referred to as the 2004 swaps). On August 11, 2005, the District entered into an additional swap agreement with RBC for the notional amount of \$57,000,000 (referred to as the 2005 swap).

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 October 2004, the District has entered into three interest rate swaps in connection with its \$57 million Series 2004 Variable Rate Revenue Bonds (Series 2004 Bonds). The intention of the swaps was to effectively change the District's variable interest rate on the bonds to a synthetic fixed rate of 2.89%, through November 1, 2007, and to 4.25% from November 2, 2007 through the life of the bonds.

Terms. The bonds mature on December 1, 2029, and the 2004 swaps mature on November 1, 2007. The 2005 swap commences on November 2, 2007, and matures on December 1, 2029. The principal amount of the Series 2004 Bonds of \$57 million matches the total of the 2004 swaps and the 2005 swap. Under the swaps, the District pays the counterparty a fixed payment of 2.895% through November 1, 2007, and 4.25% from November 2, 2007 through December 1, 2029, and receives a variable payment based on the Bond Market Association Swap Index (BMA). The bonds variable rate coupons are also based on the BMA.

Fair Value. Because interest rates have increased since execution of the swaps, the 2004 swaps had a positive fair value of \$358,603 at December 31, 2006. The 2005 swap has a negative fair value of \$1,914,216 at December 31, 2006. The fair value was determined to be the market price of the swaps at December 31, 2006.

Credit Risk. As of December 31, 2006, the District was exposed to credit risk in the amount of \$358,603. The swaps counterparties were each rated "AA" by Fitch Ratings and Standard & Poor's and "Aa2" by Moody's Investors Service as of December 31, 2006.

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 8 - AGREEMENTS (CONTINUED)

Termination Risk. The District or BNP 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 BNP or 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 swaps can be terminated. Also, if at the time of the termination, the swaps have a negative fair value, the District would be liable to BNP and RBC for a payment equal to the absolute value of the swap's fair value, or, if the fair value of the swaps is positive, the District will pay the fair value of the swaps.

NOTE 9 - INTERFUND RECEIVABLES, PAYABLES AND OPERATING TRANSFERS

The transfer of \$191,769 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. The transfer of \$10,885 from the Capital Projects Fund to the Debt Service Fund was paying agent fees, trustee fees, and rating fees paid during 2006 by the Project Fund account at ANB to the Trustee.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of December 31, 2006, the District had unexpended construction related contract commitments of approximately \$1,868,543.

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.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2006. 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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 11 - RISK MANAGEMENT (CONTINUED)

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 bonded 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.

NOTE 13 - SUBSEQUENT EVENT

Subsequent to year end, the District conveyed \$20,479,608 in infrastructure assets to other governments. This is in accordance with the District's service plan.

SUPPLEMENTAL INFORMATION

CENTERRA METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2006

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Net investment income	\$ 176,137	\$ 270,567	\$ 270,567	\$ -
Public improvement fees	-	153,879	153,879	-
LURA revenues	666,750	193,313	193,313	-
Total revenue	<u>842,887</u>	<u>617,759</u>	<u>617,759</u>	<u>-</u>
EXPENDITURES				
Debt service				
Paying agent/trustee/banking fees	10,000	12,794	12,794	-
Interest expense - Bonds	1,647,300	1,664,872	1,664,872	-
Letter of credit fees	1,512,112	1,489,651	1,489,651	-
Letter of credit fronting fees	47,140	50,741	50,741	-
Remarketing fees	57,000	56,922	56,922	-
City of Loveland collection fee	154,850	154,850	154,850	-
Contingency	10,000	10,170	-	10,170
Total expenditures	<u>3,438,402</u>	<u>3,440,000</u>	<u>3,429,830</u>	<u>10,170</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES				
	<u>(2,595,515)</u>	<u>(2,822,241)</u>	<u>(2,812,071)</u>	<u>10,170</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,000	10,885	10,885	-
Transfers out	(102,925)	(191,769)	(191,769)	-
Total other financing sources (uses)	<u>(92,925)</u>	<u>(180,884)</u>	<u>(180,884)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES				
	(2,688,440)	(3,003,125)	(2,992,955)	10,170
FUND BALANCE - BEGINNING OF YEAR				
	<u>7,045,488</u>	<u>7,115,319</u>	<u>7,115,319</u>	<u>-</u>
FUND BALANCE - END OF YEAR				
	<u>\$ 4,357,048</u>	<u>\$ 4,112,194</u>	<u>\$ 4,122,364</u>	<u>\$ 10,170</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2006

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE			
Net investment income	\$ 243,820	\$ 421,123	\$ 177,303
Public improvement fees	1,913,000	1,289,680	(623,320)
Miscellaneous	10,000	1,200	(8,800)
Total revenue	<u>2,166,820</u>	<u>1,712,003</u>	<u>(454,817)</u>
EXPENDITURES			
Current			
District management	300,000	300,000	-
Engineering	-	1,188,678	(1,188,678)
Legal	-	28,803	(28,803)
Interest paid on Developer advances	-	4,961	(4,961)
Capital outlay			
Water	3,588,120	66,412	3,521,708
Streets	14,822,721	2,941,914	11,880,807
Transportation	627,368	18,070	609,298
Park and recreation	8,863,940	3,609,298	5,254,642
Sewer and storm sewer	6,124,305	1,947,150	4,177,155
Contingency	250,000	-	250,000
Total expenditures	<u>34,576,454</u>	<u>10,105,286</u>	<u>24,471,168</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES			
	<u>(32,409,634)</u>	<u>(8,393,283)</u>	<u>24,016,351</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	102,925	191,769	88,844
Transfers out	(10,000)	(10,885)	(885)
Developer advance	21,577,000	3,745,353	(17,831,647)
Repay Developer advance	-	(260,169)	(260,169)
Total other financing sources (uses)	<u>21,669,925</u>	<u>3,666,068</u>	<u>(18,003,857)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES			
	<u>(10,739,709)</u>	<u>(4,727,215)</u>	<u>6,012,494</u>
FUND BALANCE - BEGINNING OF YEAR	<u>10,836,454</u>	<u>10,713,742</u>	<u>(122,712)</u>
FUND BALANCE - END OF YEAR	<u>\$ 96,745</u>	<u>\$ 5,986,527</u>	<u>\$ 5,889,782</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2006

\$57,000,000 Variable Rate Revenue Bonds
Series 2004

Dated October 15, 2004

Principal due December 1

Variable Interest Rate (Weekly Mode)

Paid 1st Business Day of Subsequent Month

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest **</u>	<u>Annual Debt</u> <u>Service</u>
2007	\$ -	\$ 1,711,900	\$ 1,711,900
2008	1,290,000	2,422,506	3,712,506
2009	1,595,000	2,367,681	3,962,681
2010	1,655,000	2,299,893	3,954,893
2011	1,735,000	2,229,555	3,964,555
2012	1,915,000	2,155,817	4,070,817
2013	2,015,000	2,074,429	4,089,429
2014	2,105,000	1,988,791	4,093,791
2015	2,200,000	1,899,328	4,099,328
2016	2,300,000	1,805,828	4,105,828
2017	2,400,000	1,708,078	4,108,078
2018	2,510,000	1,606,078	4,116,078
2019	2,625,000	1,499,403	4,124,403
2020	2,745,000	1,387,840	4,132,840
2021	2,865,000	1,271,177	4,136,177
2022	2,995,000	1,149,414	4,144,414
2023	3,130,000	1,022,126	4,152,126
2024	3,275,000	889,101	4,164,101
2025	3,420,000	749,913	4,169,913
2026	3,575,000	604,563	4,179,563
2027	3,740,000	452,625	4,192,625
2028	3,910,000	293,675	4,203,675
2029	3,000,000	127,500	3,127,500
	<u>\$ 57,000,000</u>	<u>\$ 33,717,221</u>	<u>\$ 90,717,221</u>

** Estimated synthetic interest rate for January 1, 2005 through November 1, 2007 2.89%

** Estimated synthetic interest rate for November 1, 2007 through December 1, 2029 4.25%



