



CENTERRA METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2005



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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, 2005, 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, 2005, 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 24 through 26 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.

April 5, 2006

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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, 2005.

Financial Highlights

- Liabilities exceeded assets by \$9,332,408 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 bond issue, which caused \$3,722,001 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 \$4,460,089, 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 \$17,981,795. This combined fund balance includes \$7,115,319 of Debt Service fund balance, and \$10,713,742 of Capital Projects fund balance.
- Total net assets decreased by \$7,608,236. A significant portion of this decrease is attributable to the District's funding of debt service payments from bond proceeds as described above and \$4,460,089 is due to infrastructure assets that were conveyed to other governments.
- Total cash and investments decreased by \$24,358,501 as compared to 2004. 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 \$207,737 for the year ended December 31, 2005. 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 \$144,743, or 70% 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 7-22 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 23-25 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 26.

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 \$9,332,408 at the close of the most recent fiscal year.

Net Assets

	<u>2005</u>	<u>2004</u>
Current assets	\$ 20,355,570	\$ 44,751,775
Other assets	1,903,782	2,159,219
Capital assets	<u>28,127,538</u>	<u>11,558,611</u>
Total assets	<u>50,386,890</u>	<u>58,469,605</u>
Current liabilities	2,381,559	2,463,137
Long-term obligations	<u>57,337,739</u>	<u>57,730,640</u>
Total liabilities	<u>59,719,298</u>	<u>60,193,777</u>
Restricted	7,991	-
Unrestricted net assets	<u>(9,340,399)</u>	<u>(1,724,172)</u>
Total net assets	<u>\$ (9,332,408)</u>	<u>\$ (1,724,172)</u>

The District's current assets decreased \$24,396,205 mainly due to decreases in cash and investments of \$24,358,501. The cash and investments were used to construct \$21,029,016 in capital assets and to pay for debt service related costs of \$3,722,001.

The District transferred \$4,460,089 of its capital assets to other governments during 2005, and also used cash from the 2004 Bond Proceeds to pay debt related costs of \$3,722,001. Both of these transactions contributed to the decrease in unrestricted net assets during 2005.

Change in Net Assets

	2005	2004
Revenue		
General revenue		
Investment income	\$ 934,892	\$ 141,557
Program revenue		
Charges for services	274,060	2,700
Total revenue	1,208,952	144,257
Expenses		
General government	635,098	939,233
Interest and related costs on long-term debt	3,722,001	929,196
Total expenses	4,357,099	1,868,429
Dedication of capital assets to other governments	4,460,089	-
Change in net assets	(7,608,236)	(1,724,172)
Net assets - Beginning	(1,724,172)	-
Net assets - Ending	\$ (9,332,408)	\$ (1,724,172)

The District's main revenue source for 2005 was investment income earned from the proceeds of the 2004 Bonds. The majority of the expenses for general government were accounting, legal and management, for both administrative and capital functions, totaling \$590,290. The interest and related costs on long-term debt include interest, letter of credit fees, swap payments, remarketing fees, and collection fees paid to the City of Loveland. Since the bonds were issued in October 2004, 2005 was the first full year of interest.

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 \$17,981,795. *Unreserved fund balance* constitutes \$144,743 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 \$7,991, and the unreserved fund balance of the general fund was \$144,743 out of a total fund balance of \$152,734.

The debt service fund has a total fund balance of \$7,115,319, all of which is restricted for repayments on debt service.

The capital projects fund has a total fund balance of \$10,713,742, all of which is restricted for the construction of infrastructure.

General Fund Budgetary Highlights

The District's total expenditures for 2005 did not exceed the original budgeted appropriation. The difference between the final budgeted developer advances of \$511,225 and the actual of \$84,643 was \$426,582. Developer advances were not required in the budgeted amount since expenditures in the General Fund were also well below budgeted amounts. The difference between the original budgeted expenditures of \$523,850 and the actual expenditures of \$207,737 was \$316,113. Notable savings were achieved in almost every expense category. The District's primary focus in 2005 was the construction of infrastructure, therefore, the administration of the District was focused on that and the majority of costs were charged to the Capital Projects Fund.

Capital Assets

The District invested \$21,029,016 in capital assets for its governmental activities for the period ended December 31, 2005. This investment in capital assets includes construction of streets, water, sewer, storm sewer, park and recreation, and transportation and traffic improvements. These assets were included in construction in progress at year end as the assets had not yet been placed into service. 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 2005, \$4,460,089 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, 2005. 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 \$337,739 as a result of funding provided by the developer to the District for operations and capital improvement costs.

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 2006 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 2006 are \$570,250 and are anticipated to be primarily funded by PIF and LURA revenues.

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, 2005

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 149,215
Restricted investments	20,073,666
Interest receivable	68,234
Reimbursement receivable	44,300
PIF revenue receivable	10,003
Service fees receivable	121
Prepaid insurance expense	10,031
Deferred charges (net of accumulated amortization)	1,903,782
Capital assets	<u>28,127,538</u>
Total assets	<u>50,386,890</u>
LIABILITIES	
Accounts payable	1,514,356
Retainage payable	859,419
Developer advance interest payable	7,784
Noncurrent liabilities	
Due in more than one year - Bonds payable	57,000,000
Due in more than one year - Developer advance payable	<u>337,739</u>
Total liabilities	<u>59,719,298</u>
NET ASSETS	
Restricted	7,991
Unrestricted	<u>(9,340,399)</u>
Total net assets	<u><u>\$ (9,332,408)</u></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, 2005

		Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
\$ 635,098	\$ 274,060	\$ -	\$ -	\$ -	\$ (361,038)	
3,722,001	-	-	-	-	(3,722,001)	
\$ 4,357,099	\$ 274,060	\$ -	\$ -	\$ -	(4,083,039)	

Primary government:
Government activities:
General government
Interest and related costs on long-term debt

General revenues:	934,892
Net investment income	934,892
Total general revenues	(4,460,089)
Special item	(7,608,236)
Dedication of capital assets to other governments	(1,724,172)
Change in net assets	\$ (9,332,408)
Net assets - Beginning	
Net assets - Ending	

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, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 35,637	\$ -	\$ 113,578	\$ 149,215
Restricted investments	1,236	7,549,366	12,523,064	20,073,666
Interest receivable	4	24,584	43,646	68,234
Reimbursement receivable	-	-	44,300	44,300
PIF revenue receivable	10,003	-	-	10,003
Receivable - Service fees	121	-	-	121
Prepaid insurance expense	10,031	-	-	10,031
Due from other fund	123,534	-	-	123,534
TOTAL ASSETS	<u>\$ 180,566</u>	<u>\$ 7,573,950</u>	<u>\$ 12,724,588</u>	<u>\$ 20,479,104</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 27,832	\$ 335,097	\$ 1,151,427	\$ 1,514,356
Retainage payable	-	-	859,419	859,419
Due to other fund	-	123,534	-	123,534
Total liabilities	<u>27,832</u>	<u>458,631</u>	<u>2,010,846</u>	<u>2,497,309</u>
FUND BALANCES				
Reserved for:				
Emergency reserves	7,991	-	-	7,991
Debt service fund	-	7,115,319	-	7,115,319
Capital projects funds	-	-	10,713,742	10,713,742
Unreserved, reported in:				
General fund	144,743	-	-	144,743
Total fund balances	<u>152,734</u>	<u>7,115,319</u>	<u>10,713,742</u>	<u>17,981,795</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 180,566</u>	<u>\$ 7,573,950</u>	<u>\$ 12,724,588</u>	

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 in the funds.	28,127,538
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Deferred charges, net	1,903,782
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	(337,739)
Developer advance interest payable	(7,784)
Net assets of governmental activities	<u>\$ (9,332,408)</u>

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, 2005

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Net investment income	\$ 26	\$ 255,975	\$ 678,892	\$ 934,893
Service fees, District No. 2/miscellaneous	13,820	-	7,725	21,545
Public improvement fees	252,515	-	-	252,515
Total revenues	<u>266,361</u>	<u>255,975</u>	<u>686,617</u>	<u>1,208,953</u>
EXPENDITURES				
Current				
Accounting and audit	56,397	-	45,723	102,120
Legal	73,773	-	46,825	120,598
Management	53,138	-	314,434	367,572
Insurance and bonds	7,296	-	-	7,296
Landscape maintenance	1,460	-	-	1,460
Engineering	-	-	20,377	20,377
Utilities	7,234	-	-	7,234
Miscellaneous	6,862	-	1	6,863
Contingency	1,577	-	-	1,577
Debt service				
Paying agent fees	-	5,920	-	5,920
Interest expense - Bonds	-	1,660,118	-	1,660,118
Interest paid on developer advances	-	-	95,575	95,575
Rating fees	-	5,000	-	5,000
Letter of credit fees	-	1,482,439	-	1,482,439
Letter of credit fronting fees	-	45,417	-	45,417
Remarketing fees	-	56,898	-	56,898
City of Loveland collection fees	-	100,170	-	100,170
Bond issue costs	-	-	7,243	7,243
Capital outlay	-	-	21,029,016	21,029,016
Contingency	-	2	-	2
Total expenditures	<u>207,737</u>	<u>3,355,964</u>	<u>21,559,194</u>	<u>25,122,895</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>58,624</u>	<u>(3,099,989)</u>	<u>(20,872,577)</u>	<u>(23,913,942)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	11,379	3,640,415	3,651,794
Operating transfers out	-	(112,281)	(3,539,513)	(3,651,794)
Developer advance	84,643	-	2,115,766	2,200,409
Repay developer advance	-	-	(3,369,334)	(3,369,334)
Total other financing sources (uses)	<u>84,643</u>	<u>(100,902)</u>	<u>(1,152,666)</u>	<u>(1,168,925)</u>
NET CHANGE IN FUND BALANCE	143,267	(3,200,891)	(22,025,243)	(25,082,867)
FUND BALANCE - BEGINNING OF YEAR	9,467	10,316,210	32,738,985	43,064,662
FUND BALANCE - END OF YEAR	<u>\$ 152,734</u>	<u>\$ 7,115,319</u>	<u>\$ 10,713,742</u>	<u>\$ 17,981,795</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, 2005**

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

Net change in fund balance - Total governmental funds \$ (25,082,867)

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.

21,029,016

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.

(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	(2,200,409)
Repayment of developer advances	3,369,334
Accrued interest on developer advances	(7,784)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Dedication of capital assets to other government	(4,460,089)
Amortization expense - Bond issue costs	(82,526)
Changes in net assets of governmental activities	\$ (7,608,236)

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, 2005

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE			
Service fees, District No. 2	\$ 13,125	\$ 13,820	\$ 695
Interest income	-	26	26
Public improvement fees	-	252,515	252,515
Total revenue	<u>13,125</u>	<u>266,361</u>	<u>253,236</u>
EXPENDITURES			
Current			
Accounting and audit	100,000	56,397	43,603
Director fees	3,750	-	3,750
Engineering	80,000	-	80,000
Legal	100,000	73,773	26,227
Management	120,000	53,138	66,862
Insurance and bonds	15,000	7,296	7,704
Landscape maintenance	30,000	1,460	28,540
Repairs and maintenance	10,000	-	10,000
Utilities	10,000	7,234	2,766
Miscellaneous	7,500	6,862	638
Meeting expense	-	1,577	(1,577)
Contingency	47,600	-	47,600
Total expenditures	<u>523,850</u>	<u>207,737</u>	<u>316,113</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(510,725)</u>	<u>58,624</u>	<u>569,349</u>
OTHER FINANCING SOURCES			
Developer advance	511,225	84,643	(426,582)
Total other financing sources	<u>511,225</u>	<u>84,643</u>	<u>(426,582)</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	500	143,267	142,767
FUND BALANCE - BEGINNING OF YEAR	-	9,467	9,467
FUND BALANCE - END OF YEAR	<u>\$ 500</u>	<u>\$ 152,734</u>	<u>\$ 152,234</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, 2005

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 Colorado 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 Corporation 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, 2005

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, 2005

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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.

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.

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserved Fund Balance

The reserved fund balance in the Debt Service Fund in the amount of \$7,115,319 is to be used exclusively for future debt service payments.

The reserved fund balance in the Capital Projects Fund in the amount of \$10,713,742 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 \$7,991.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2005, are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 149,215
Cash and investments - Restricted	<u>20,073,666</u>
Total cash and investments	<u>\$ 20,222,881</u>

Cash and investments as of December 31, 2005, consist of the following:

Deposits with financial institutions	\$ 149,215
Investments	<u>20,073,666</u>
Total cash and investments	<u>\$ 20,222,881</u>

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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, 2005, the District's cash deposits had a bank balance of \$345,523 and a carrying balance of \$149,215.

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 and certain U.S. government agency securities
- . Certain international agency securities
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements collateralized by certain authorized securities
- * Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2005, the District had the following investments:

Investment	Fair Value
U.S. Treasury money market fund	<u>\$ 20,073,666</u>

U.S. Treasury Money Market Fund

During 2005, 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, 2005, the District had \$20,073,666 invested in the SEI fund.

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2005, follows:

	Balance at December 31, 2004	Increases	Decreases	Balance at December 31, 2005
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 11,558,611	\$ 21,029,016	\$4,460,089	\$ 28,127,538
Total capital assets, not being depreciated	\$ 11,558,611	\$ 21,029,016	\$4,460,089	\$ 28,127,538

Capital assets totaling \$4,460,089 were conveyed to other governments during 2005.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 5 - LONG-TERM OBLIGATIONS

The District's outstanding long-term obligations at December 31, 2005, were as follows:

	<u>Balance at December 31, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2005</u>	<u>Due Within One Year</u>
Variable rate revenue bonds:					
2004 Bonds	\$ 57,000,000	\$ -	\$ -	\$ 57,000,000	\$ -
Developer advances	1,506,664	2,200,409	3,369,334	337,739	-
	<u>\$ 58,506,664</u>	<u>\$ 2,200,409</u>	<u>\$3,369,334</u>	<u>\$ 57,337,739</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, 2005, 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, 2005

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

- v) Payments on the swap agreements with BNP and RBC Dain Rauscher, Inc. (see Note 7).
- 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, 2005, the balance in the Collateral Revenue Fund recorded as a payable was \$6,750.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

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 7).

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:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 1,647,300	\$ 1,647,300
2007	-	1,776,500	1,776,500
2008	1,290,000	2,422,500	3,712,500
2009	1,595,000	2,367,675	3,962,675
2010	1,655,000	2,299,888	3,954,888
2011-2015	9,970,000	10,347,900	20,317,900
2016-2020	12,580,000	8,007,213	20,587,213
2021-2025	15,685,000	5,081,725	20,766,725
2026-2029	14,225,000	1,478,365	15,703,365
	<u>\$ 57,000,000</u>	<u>\$ 35,429,066</u>	<u>\$ 92,429,066</u>

NOTE 6 - 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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 7 - 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.

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 7 - AGREEMENTS (CONTINUED)

On December 1, 2005, the District entered into four separate Advance and Reimbursement Agreements for Capital Costs with four different Developer entities. The first agreement calls for the Developer entity to loan the District up to \$9,280,000 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. The second agreement calls for the Developer entity to loan the District up to \$10,800,000 during calendar year 2006 and 2007 for the purpose of funding the construction of certain public improvements as outlined in the District's service plan. The third agreement calls for the Developer entity to loan the District up to \$500,000 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. The fourth agreement calls for the Developer entity to loan the District up to \$3,000,000 during calendar years 2006 and 2007 for the purpose of funding 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.

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 7 - AGREEMENTS (CONTINUED)

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 BNP swap of \$28.5 million and the RBC swap of \$28.5 million. 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 \$536,625 at December 31, 2005. The 2005 swap has a negative fair value of \$1,039,191 at December 31, 2005. The fair value was determined to be the market price of the swaps at December 31, 2005.

Credit Risk. As of December 31, 2005, the District was exposed to credit risk in the amount of \$536,625. 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, 2005.

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.

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES AND OPERATING TRANSFERS

The transfer of \$112,281 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. Also, at December 31, 2005, the General Fund had a due from the Debt Service Fund for \$123,534 which represents public improvement fees collected in the Debt Service Fund that are available for operations and maintenance and will be used by the General Fund in 2006 for operations and maintenance.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of December 31, 2005, the District had unexpended construction related contract commitments of approximately \$2,086,671.

NOTE 10 - 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, 2005. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 11 - 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 12 - SUBSEQUENT EVENT

Subsequent to year end, the District conveyed \$13,194,931 in infrastructure assets to other government.

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SUPPLEMENTAL INFORMATION

CENTERRA METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2005

	<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	\$ 131,000	\$ 255,974	\$ 255,975	\$ 1
Total revenue	<u>131,000</u>	<u>255,974</u>	<u>255,975</u>	<u>1</u>
EXPENDITURES				
Debt service				
Paying agent fees	10,000	5,920	5,920	-
Interest expense - Bonds	1,425,000	1,660,118	1,660,118	-
Rating fees	-	5,000	5,000	-
Letter of credit fees	1,425,000	1,482,439	1,482,439	-
Letter of credit fronting fees	-	45,417	45,417	-
Remarketing fees	-	56,898	56,898	-
City of Loveland collection fee	-	100,170	100,170	-
Contingency	10,000	25,000	2	24,998
Total expenditures	<u>2,870,000</u>	<u>3,380,962</u>	<u>3,355,964</u>	<u>24,998</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(2,739,000)</u>	<u>(3,124,988)</u>	<u>(3,099,989)</u>	<u>24,999</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	11,379	11,379
Transfers to	-	-	(112,281)	(112,281)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(100,902)</u>	<u>(100,902)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(2,739,000)</u>	<u>(3,124,988)</u>	<u>(3,200,891)</u>	<u>(75,903)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>10,030,557</u>	<u>10,316,211</u>	<u>10,316,210</u>	<u>(1)</u>
FUND BALANCE - END OF YEAR	<u>\$ 7,291,557</u>	<u>\$ 7,191,223</u>	<u>\$ 7,115,319</u>	<u>\$ (75,904)</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2005

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE			
Net investment income	\$ 322,930	\$ 678,892	\$ 355,962
Miscellaneous	-	7,725	7,725
Total revenue	<u>322,930</u>	<u>686,617</u>	<u>363,687</u>
EXPENDITURES			
Current			
Accounting and audit	80,000	45,723	34,277
Legal	50,000	46,825	3,175
Management	175,000	314,434	(139,434)
Engineering	-	20,377	(20,377)
Interest paid on developer advances	-	95,575	(95,575)
Bond issue costs	-	7,243	(7,243)
Miscellaneous	-	1	(1)
Capital outlay			
Water	3,508,087	157,458	3,350,629
Streets	21,413,826	11,042,943	10,370,883
Transportation	397,087	674,041	(276,954)
Park and recreation	805,987	7,348,222	(6,542,235)
Sewer and storm sewer	22,940,999	1,806,352	21,134,647
Contingency	250,000	-	250,000
Total expenditures	<u>49,620,986</u>	<u>21,559,194</u>	<u>28,061,792</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(49,298,056)</u>	<u>(20,872,577)</u>	<u>28,425,479</u>
OTHER FINANCING SOURCES (USES)			
Developer advance	17,005,015	2,115,766	(14,889,249)
Repay developer advance	-	(3,369,334)	(3,369,334)
Transfers in	-	3,640,415	3,640,415
Transfers out	-	(3,539,513)	(3,539,513)
Total other financing sources (uses)	<u>17,005,015</u>	<u>(1,152,666)</u>	<u>(18,157,681)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(32,293,041)</u>	<u>(22,025,243)</u>	<u>10,267,798</u>
FUND BALANCE - BEGINNING OF YEAR	<u>32,293,041</u>	<u>32,738,985</u>	<u>445,944</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 10,713,742</u>	<u>\$ 10,713,742</u>

