

CENTERRA METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2007

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JASPERS + HALL, PC
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2007, 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, 2007, 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 28 through 30 is presented for purposes of additional analysis and is also not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Jasper + Hall, PC
July 16, 2008

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, 2007.

Financial Highlights

- Liabilities exceeded assets by \$34,788,264 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 \$4,208,941 of the deficit in the current year. The District has also dedicated to other governments assets that it constructed.
- As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6,658,608. This combined fund balance includes \$4,181,448 of Debt Service Fund balance, and \$2,357,396 of Capital Projects Fund balance.
- Total net assets decreased by \$1,750,236. A significant portion of this decrease is attributable to the District's funding of debt service payments from bond proceeds as described above.
- Total cash and investments decreased by \$1,489,114 as compared to 2006. 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 \$791,948 for the year ended December 31, 2007. 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 \$77,504, or 10% of total General Fund expenditures.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Other information. The report includes individual fund schedules. A budgetary comparison statement has been provided in this section for the Debt Service Fund and the Capital Projects Fund to demonstrate compliance with these budgets. The budget statements are found after the *basic financial statements* on pages 29-30 of this report. Also, a schedule of debt service requirements to maturity on the District's 2004 Variable Rate Revenue Bonds is included on page 31.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The District's liabilities exceeded assets by \$34,788,264 at the close of the most recent fiscal year.

Net Assets

	<u>2007</u>	<u>2006</u>
Current assets	\$ 9,630,593	\$ 11,847,191
Other assets	1,460,893	1,608,098
Capital assets	<u>21,894,663</u>	<u>15,874,264</u>
Total assets	<u>32,986,149</u>	<u>29,419,553</u>
Current liabilities	2,971,985	1,639,337
Long-term obligations	<u>64,802,428</u>	<u>60,818,244</u>
Total liabilities	<u>67,774,413</u>	<u>62,457,581</u>
Invested in capital, net of related debt	(14,853,264)	5,456,074
Restricted	1,757,835	4,135,353
Unrestricted net assets	<u>(21,692,835)</u>	<u>(42,629,455)</u>
Total net assets	<u>\$ (34,788,264)</u>	<u>\$ (33,038,028)</u>

The District's current assets decreased \$2,216,598 mainly due to decreases in cash and investments of \$1,489,114. The cash and investments were used to construct or acquire capital assets and to pay for debt service related costs.

Change in Net Assets

	2007	2006
Revenue		
General revenue		
Investment income	\$ 417,592	\$ 701,722
Intergovernmental revenue - District No. 2	142,121	37,797
Program revenue		
Charges for services	4,726,592	2,023,198
Total revenue	5,286,305	2,762,717
Expenses		
General government	2,795,816	2,228,794
Dedication of capital assets to other governments	-	20,479,608
Interest and related costs on long-term debt	4,240,725	3,759,935
Total expenses	7,036,541	26,468,337
Change in net assets	(1,750,236)	(23,705,620)
Net assets - Beginning	(33,038,028)	(9,332,408)
Net assets - Ending	\$ (34,788,264)	\$ (33,038,028)

The District's main revenue sources for 2007 were revenues from the Loveland Urban Renewal Authority, public improvement fees and investment income. The majority of the expenses for general government were accounting, legal, landscape maintenance, warranty costs, waterline reimbursement, management and engineering, for both administrative and capital functions, totaling \$2,221,239. 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 \$6,658,608. *Unreserved fund balance* constitutes \$77,504 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 \$42,260, and the unreserved fund balance of the general fund was \$77,504 out of a total fund balance of \$119,764.

The Debt Service Fund has a total fund balance of \$4,181,448, all of which is restricted for repayments on debt service.

The Capital Projects Fund has a total fund balance of \$2,357,396, all of which is restricted for the construction of infrastructure.

General Fund Budgetary Highlights

During the year ended December 31, 2007, supplementary appropriations approved by the District modified the appropriations from \$721,051 to \$907,322. The difference between the amended budgeted expenditures of \$907,322 and the actual expenditures of \$801,913 was \$105,409. Notable savings were achieved in several expense categories. There was \$38,983 in unutilized budget for the line item District management and administration.

Capital Assets

The District invested \$6,487,124 in capital assets for its governmental activities for the period ended December 31, 2007. 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 2007, no 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, 2007. Interest payments are made monthly on the first business day of the subsequent month.

Additionally, the District had a long-term liability to the Developer, McWhinney, of \$6,778,560 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 \$631,348 for the accrued interest on the funding the Developer provided.

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

Next Year's Budgets and Rates

Significant increases are anticipated to operate the District in 2008 for items such as landscape maintenance, utilities, and repairs and maintenance, as well as for items such as accounting, management and administration, legal, and general engineering. Budgeted expenditures for the General Fund in 2008 are \$1,200,000 and are anticipated to be primarily funded by PIF revenues, LURA revenues and service fees from District No. 2.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CENTERRA METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET ASSETS
December 31, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 75,174
Cash and investments - Restricted	9,507,960
Interest receivable	21,651
Service fees receivable	8,238
Prepaid insurance expense	17,570
Deferred charges (net of accumulated amortization)	1,460,893
Capital assets, net	21,894,663
Total assets	<u>32,986,149</u>
LIABILITIES	
Accounts payable	2,247,462
Bond interest payable	204,031
Retainage payable	181,664
Deferred URA revenue	338,828
Noncurrent liabilities	
Due within one year - Waterline reimbursement agreement note payable	105,947
Due within one year - Bonds payable	1,290,000
Due in more than one year - Waterline reimbursement agreement note payable	286,573
Due in more than one year - Bonds payable	55,710,000
Due in more than one year - Developer advance payable	6,778,560
Due in more than one year - Interest on Developer advance payable	631,348
Total liabilities	<u>67,774,413</u>
NET ASSETS	
Restricted for:	
Invested in capital assets, net of related debt	(14,853,264)
Emergency reserves	24,690
Capital projects	1,733,145
Unrestricted	(21,692,835)
Total net assets	<u><u>\$ (34,788,264)</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, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Expenses	\$ 2,795,816	\$ 1,219,991	\$ -	\$ (1,575,825)
	4,240,725	3,506,601	-	(734,124)
	<u>\$ 7,036,541</u>	<u>\$ 4,726,592</u>	<u>\$ -</u>	<u>(2,309,949)</u>

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

General revenues:
Net investment income 417,592
Service fees - District No. 2 142,121
Total general revenues 559,713
Change in net assets (1,750,236)
Net assets - Beginning (33,038,028)
Net assets - Ending \$(34,788,264)

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, 2007

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 75,174	\$ -	\$ -	\$ 75,174
Cash and investments - Restricted	24,690	6,442,259	3,041,011	9,507,960
Interest receivable	60	13,262	8,329	21,651
Receivable - Service fees	8,238	-	-	8,238
Prepaid insurance expense	17,570	-	-	17,570
Due from other fund	30,000	-	-	30,000
TOTAL ASSETS	\$ 155,732	\$ 6,455,521	\$ 3,049,340	\$ 9,660,593
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 35,968	\$ 1,731,214	\$ 480,280	\$ 2,247,462
Bond interest payable	-	204,031	-	204,031
Retainage payable	-	-	181,664	181,664
Deferred URA revenue	-	338,828	-	338,828
Due to other fund	-	-	30,000	30,000
Total liabilities	35,968	2,274,073	691,944	3,001,985
FUND BALANCES				
Reserved for:				
Prepays	17,570	-	-	17,570
Emergency reserves	24,690	-	-	24,690
Debt service	-	4,181,448	-	4,181,448
Capital projects	-	-	2,357,396	2,357,396
Unreserved, reported in:				
General Fund	77,504	-	-	77,504
Total fund balances	119,764	4,181,448	2,357,396	6,658,608
TOTAL LIABILITIES AND FUND BALANCES	\$ 155,732	\$ 6,455,521	\$ 3,049,340	

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.	21,894,663
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Deferred charges, net	1,460,893
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	(6,778,560)
Developer advance interest payable	(631,348)
Waterline reimbursement agreement note payable	(392,520)
Net assets of governmental activities	\$ (34,788,264)

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

CENTERRA METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Service fees, District No. 2	\$ 142,121	\$ -	\$ -	\$ 142,121
Net investment income	18,483	199,413	199,696	417,592
Public improvement fees	18,412	368,650	414,250	801,312
URA revenues	643,698	3,137,951	-	3,781,649
Storm Water Reimbursement - City of Loveland	-	-	143,631	143,631
Total revenues	<u>822,714</u>	<u>3,706,014</u>	<u>757,577</u>	<u>5,286,305</u>
EXPENDITURES				
Current				
Accounting and audit	58,871	-	-	58,871
District management and administration	255,287	-	429,115	684,402
Legal	202,745	-	56,547	259,292
Insurance and bonds	14,098	-	-	14,098
Landscape maintenance, repairs, snow removal	153,783	-	-	153,783
Engineering	19,733	-	13,561	33,294
Utilities	77,782	-	-	77,782
Reimbursement per Waterline Agreement - Principal	-	-	137,216	137,216
Reimbursement per Waterline Agreement - Interest	-	-	31,784	31,784
Warranty costs	-	-	508,184	508,184
Miscellaneous	9,649	-	-	9,649
Debt service				
Paying agent/trustee/banking fees	-	10,736	-	10,736
Interest expense - Bonds	-	1,796,927	-	1,796,927
Letter of credit fees	-	1,519,411	-	1,519,411
Remarketing fees	-	57,078	-	57,078
City of Loveland collection fees	-	73,844	-	73,844
Capital outlay	-	-	6,487,124	6,487,124
Total expenditures	<u>791,948</u>	<u>3,457,996</u>	<u>7,663,531</u>	<u>11,913,475</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>30,766</u>	<u>248,018</u>	<u>(6,905,954)</u>	<u>(6,627,170)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	9,965	198,899	208,864
Operating transfers out	(9,965)	(198,899)	-	(208,864)
Developer advance	-	-	3,077,924	3,077,924
Total other financing sources (uses)	<u>(9,965)</u>	<u>(188,934)</u>	<u>3,276,823</u>	<u>3,077,924</u>
NET CHANGE IN FUND BALANCES				
	20,801	59,084	(3,629,131)	(3,549,246)
FUND BALANCES - BEGINNING OF YEAR				
	98,963	4,122,364	5,986,527	10,207,854
FUND BALANCES - END OF YEAR				
	<u>\$ 119,764</u>	<u>\$ 4,181,448</u>	<u>\$ 2,357,396</u>	<u>\$ 6,658,608</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 BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2007

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

Net change in fund balances - Total governmental funds \$ (3,549,246)

Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Therefore, this is the amount of capital outlay, net of depreciation, in the current period.

Capital outlay	6,487,124
Depreciation	(466,725)

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.

(172,912)

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	(3,077,924)
Change in accrued interest on Developer advances	(513,740)
Amortization expense - Bond issue costs	(64,293)

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	-
Waterline reimbursement agreement note payable	(529,736)
Reimbursement per waterline agreement - Principal	137,216

Changes in net assets of governmental activities	\$ (1,750,236)
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

CENTERRA METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2007

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Service fees, District No. 2	\$ 122,344	\$ 126,863	\$ 142,121	\$ 15,258
Net investment income	10,000	16,000	18,483	2,483
Public improvement fees	398,707	200,000	18,412	(181,588)
URA revenues	200,000	500,000	643,698	143,698
Total revenues	<u>731,051</u>	<u>842,863</u>	<u>822,714</u>	<u>(20,149)</u>
EXPENDITURES				
Current				
Accounting and audit	70,260	61,583	58,871	2,712
District management and administration	294,270	294,270	255,287	38,983
Engineering	10,000	9,000	19,733	(10,733)
Legal	124,000	230,000	202,745	27,255
Insurance and bonds	14,300	14,098	14,098	-
Landscape maintenance, repairs, snow removal	74,815	150,000	153,783	(3,783)
Utilities	55,000	80,000	77,782	2,218
Miscellaneous	12,856	12,856	9,649	3,207
Contingency	65,550	45,550	-	45,550
Total expenditures	<u>721,051</u>	<u>897,357</u>	<u>791,948</u>	<u>105,409</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,000</u>	<u>(54,494)</u>	<u>30,766</u>	<u>85,260</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other fund	-	(9,965)	(9,965)	-
Total other financing sources (uses)	<u>-</u>	<u>(9,965)</u>	<u>(9,965)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	10,000	(64,459)	20,801	85,260
FUND BALANCES - BEGINNING OF YEAR	42,171	98,963	98,963	-
FUND BALANCES - END OF YEAR	<u>\$ 52,171</u>	<u>\$ 34,504</u>	<u>\$ 119,764</u>	<u>\$ 85,260</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, 2007

NOTE 1 - DEFINITION OF REPORTING ENTITY

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

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

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

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

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, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

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

The statement of net assets reports all financial and capital resources of the District 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.

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2007, supplementary appropriations approved by the District's Board of Directors modified the appropriation from \$721,051 to \$907,322 in the General Fund.

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Balances

The District reports interfund balances that are representative of lending/borrowing arrangements between funds in the fund financial statements as due to/from other. The interfund balances have been eliminated in the government-wide statements.

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.

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

There is a two year warranty period on the assets that were conveyed to the City of Loveland. The costs associated with the warranty during 2007 were \$508,184.

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

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

Monumentation	20 years
Landscape	20 years

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. As of December 31, 2007, the bond issuance costs, net of accumulated amortization, related to the Series 2004 Bonds is \$1,158,298 and the letter of credit origination fee, net of accumulated amortization, related to the Series 2004 Bonds is \$302,595.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Equity

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

Reserved Fund Balance

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 12). \$24,690 of the fund balance has been reserved in compliance with this requirement.

The reserved fund balance in the Debt Service Fund in the amount of \$4,181,448 is to be used exclusively for future debt service payments.

The reserved fund balance in the Capital Projects Fund in the amount of \$2,357,396 is to be used exclusively for the construction of infrastructure.

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2007, are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 75,174
Cash and investments - Restricted	<u>9,507,960</u>
Total cash and investments	<u>\$ 9,583,134</u>

Cash and investments as of December 31, 2007, consist of the following:

Deposits with financial institutions	\$ 7,038
Investments	<u>9,576,096</u>
Total cash and investments	<u>\$ 9,583,134</u>

Deposits with Financial Institutions

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

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

At December 31, 2007, the District's cash deposits had a bank balance of \$122,676 that was either federally insured or collateralized by PDPA, and a carrying balance of \$7,038.

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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

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

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

The local government investment pools, which include the Colotrust Surplus Asset Fund Trust (CSAFE) and the Colorado Local Government Liquid Asset Trust (Colotrust) are both rated AAAM by Standard & Poor's.

As of December 31, 2007, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Liquid Asset Trust (Colotrust)	Less than one year	\$ 530,384
U.S. Treasury money market fund		<u>9,045,712</u>
		<u>\$ 9,576,096</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

During 2007, 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, 2007, the Centerra Metropolitan District No. 1 had \$530,384 invested in COLOTRUST PLUS+.

U.S. Treasury Money Market Fund

During 2007, 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, 2007, the District had \$9,045,712 invested in the SEI fund.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2007, follows:

	<u>Balance at January 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2007</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 4,053,582	\$ 6,487,124	\$ 849,180	\$ 9,691,526
Water rights	3,218,998	204,084	-	3,423,082
Total capital assets, not being depreciated	<u>7,272,580</u>	<u>6,691,208</u>	<u>849,180</u>	<u>13,114,608</u>
Capital assets, being depreciated:				
Monumentation	4,304,919	48,299	-	4,353,218
Landscape improvements	4,653,276	596,797	-	5,250,073
Total capital assets, being depreciated	<u>8,958,195</u>	<u>645,096</u>	<u>-</u>	<u>9,603,291</u>
Less accumulated depreciation for:				
Monumentation	181,045	216,655	-	397,700
Landscape improvements	175,466	250,070	-	425,536
Total accumulated depreciation	<u>356,511</u>	<u>466,725</u>	<u>-</u>	<u>823,236</u>
Total capital assets, being depreciated, net	<u>8,601,684</u>	<u>178,371</u>	<u>-</u>	<u>8,780,055</u>
Governmental activities capital assets, net	<u>\$ 15,874,264</u>	<u>\$ 6,869,579</u>	<u>\$ 849,180</u>	<u>\$ 21,894,663</u>

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2007:

	<u>Balance at January 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2007</u>	<u>Due Within One Year</u>
Variable rate revenue bonds:					
2004 Bonds	\$ 57,000,000	\$ -	\$ -	\$ 57,000,000	\$ 1,290,000
Developer advances	3,700,636	3,077,924	-	6,778,560	-
Interest on Developer Advances	117,608	513,740	-	631,348	-
Waterline reimbursement agreement note payable	-	529,736	(137,216)	392,520	105,947
Interest on waterline reimburse- ment agreement note payable	-	31,784	(31,784)	-	-
	<u>\$ 60,818,244</u>	<u>\$ 4,153,184</u>	<u>\$ (169,000)</u>	<u>\$ 64,802,428</u>	<u>\$ 1,395,947</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

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

Variable Rate Revenue Bonds, Series 2004 (2004 Bonds) were issued on October 15, 2004, in the original amount of \$57,000,000. The 2004 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 2004 Bonds are subject to redemption prior to maturity at the option of the District at certain dates depending upon the interest rate mode. The 2004 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 2004 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, 2007, 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:

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

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 (5 mills only), 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, 2007, 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).
- vi) Payment to the Loveland Urban Renewal Authority (LURA) as the Regional Allocation pursuant to the terms of the Master Financing Agreement.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

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, 2007, the balance in the Collateral Revenue Fund recorded as a payable was \$1,579,303.

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, 2007

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		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2013-2017	11,020,000	9,476,454	20,496,454
2018-2022	13,740,000	6,913,912	20,653,912
2023-2027	17,140,000	3,718,328	20,858,328
2028-2029	6,910,000	421,175	7,331,175
	<u>\$ 57,000,000</u>	<u>\$ 32,005,321</u>	<u>\$ 89,005,321</u>

Swap Payments and Associated Debt

Using rates as of December 31, 2007, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary (see Note 8).

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

	2004 Series Variable Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest		
2008	\$ 1,290,000	\$ 1,943,700	\$ 478,806	\$ 3,712,506
2009	1,595,000	1,899,711	467,970	3,962,681
2010	1,655,000	1,845,322	454,571	3,954,893
2011	1,735,000	1,788,886	440,669	3,964,555
2012	1,915,000	1,729,723	426,094	4,070,817
2013-2017	11,020,000	7,603,448	1,873,006	20,496,454
2018-2022	13,740,000	5,547,388	1,366,524	20,653,912
2023-2027	17,140,000	2,983,409	734,919	20,858,328
2028-2029	6,910,000	337,931	83,244	7,331,175
	<u>\$ 57,000,000</u>	<u>\$ 25,679,518</u>	<u>\$ 6,325,803</u>	<u>\$ 89,005,321</u>

Authorized Debt

On May 4, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$5,350,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2007, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

	Amount Authorized May 4, 2004	Authorization Used Series 2004 Bonds	Authorized But Unissued
Street improvement	\$ 350,000,000	\$ 23,611,686	\$ 326,388,314
Traffic and safety controls	350,000,000	703,738	349,296,262
Water supply system	350,000,000	2,155,078	347,844,922
Sanitary sewer and storm drainage	350,000,000	12,798,534	337,201,466
Parks and recreation	350,000,000	17,730,964	332,269,036
Public transportation	350,000,000	-	350,000,000
Television relay and transmission	350,000,000	-	350,000,000
Mosquito control	350,000,000	-	350,000,000
Fire protection	350,000,000	-	350,000,000
Administrative/management services	50,000,000	-	50,000,000
Refinancing district debt	700,000,000	-	700,000,000
Intergovernmental agreements among Metropolitan Districts Nos. 1-4	500,000,000	-	500,000,000
Contracts with other political subdivisions	500,000,000	-	500,000,000
Reimbursement obligations to private entities	400,000,000	-	400,000,000
Construction management	50,000,000	-	50,000,000
	<u>\$5,350,000,000</u>	<u>\$ 57,000,000</u>	<u>\$5,293,000,000</u>

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

NOTE 6 - NET ASSETS

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2007, the District had invested in capital assets, net of related debt calculated as follows:

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 6 - NET ASSETS (CONTINUED)

	<u>Governmental Activities</u>
Invested in capital assets, net of related debt:	
Capital assets, net	\$ 12,203,137
Portion of debt related to cash and investment	2,265,727
Bond issuance costs, net of accumulated amortization	545,010
Letter of credit origination fee, net	142,379
Current and noncurrent portion of long-term obligations - Bonds	(26,820,023)
Noncurrent portion of long-term obligations - Developer advances	(3,189,494)
Invested in capital assets, net of related debt	<u><u>\$ (14,853,264)</u></u>

Restricted assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net assets as of December 31, 2007 as follows:

	<u>Governmental Activities</u>
Restricted net assets:	
Emergencies (see Note 2)	\$ 24,690
Capital projects	1,733,145
Total restricted net assets	<u><u>\$ 1,757,835</u></u>

The District's unrestricted net assets as of December 31, 2007 totaled \$(21,692,835). 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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 7 - RELATED PARTY

The Developers of the property which constitutes the District are McWhinney; Centerra Properties West, LLC (CPW); Rocky Mountain Village II, LLP (RMVII); and SMP4 Investments, Inc. (SMP4). The members of the Board of Directors are employees, owners or are otherwise associated with the Developers and have disclosed any potential conflicts of interest in taking action on matters brought before the Board. The District owes CPW \$3,065,950, RMVII \$24,623, and SMP4 \$3,687,987 as of December 31, 2007 for outstanding Developer advances (see Note 5).

NOTE 8 - AGREEMENTS

Master Financing Agreement

The Master Financing Agreement (MFA) was entered into between the District, the City, the Loveland Urban Renewal Authority (LURA), the Developer, Centerra Public Improvement Collection Corporation, and Centerra Public Improvement Development Corporation on August 19, 2004. Pursuant to the MFA the LURA assigned the net TIF Revenues to the District for the purpose of financing certain public improvements. The MFA also requires the 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 (Capital Costs)

On December 1, 2005, the District entered into four separate Advance and Reimbursement Agreements for Capital Costs with four different Developer entities (see Note 7). 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.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 8 - AGREEMENTS (CONTINUED)

Improvements Acquisition Agreement

On September 2, 2004, the District entered into an Improvements Acquisition Agreement with the Centerra Lifestyle Center, L.L.C., a Delaware limited liability company (Lifestyle Center). Under the terms of this agreement the Lifestyle Center agreed to design, construct and complete certain public improvements as outlined in the agreement. The District agreed to purchase these improvements from the Lifestyle Center upon formal acceptance of the improvements by the District's Board of Directors.

Waterline Reimbursement Agreement

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

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. The intention of the swaps was to effectively change the District's variable interest rate on the 2004 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 2004 Bonds.

Terms. The 2004 Bonds mature on December 1, 2029, and the 2004 swaps matured on November 1, 2007. The 2005 swap commenced on November 2, 2007, and matures on December 1, 2029. The principal amount of the 2004 Bonds of \$57 million matches the notional

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 8 - AGREEMENTS (CONTINUED)

amount 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 Securities Industry and Financial Markets Association Swap Index (SIFMA). The 2004 Bonds' variable rate coupons are also based on the SIFMA.

Fair Value. The 2005 swap has a negative fair value of \$3,602,691 at December 31, 2007. The fair value was determined to be the market price of the swaps at December 31, 2007.

Credit Risk. As of December 31, 2007, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair market value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The 2005 swap counterparty was rated "AA" by Fitch Ratings, "AA" by Standard & Poor's and "Aaa" by Moody's Investors Service as of December 31, 2007.

Basis Risk. The District has managed its basis risk by choosing to receive their variable rate payments from BNP and RBC based on the SIFMA, which will closely approximate the variable rate interest payments due on the 2004 Bonds.

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

NOTE 9 - INTERFUND RECEIVABLES, PAYABLES AND OPERATING TRANSFERS

The balance of \$30,000 due from the Capital Projects Fund to the General Fund is the result of borrowing from the General Fund in order to make timely payments for Capital Projects Fund expenses. All of the balances are expected to be paid within one year.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 9 - INTERFUND RECEIVABLES, PAYABLES AND OPERATING TRANSFERS
(CONTINUED)

The transfer of \$198,899 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 \$9,965 from the General Fund to the Debt Service Fund was LOC fees and remarketing fees paid during 2007 by the Real Property Tax Fund account at ANB to the Trustee.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of December 31, 2007, the District had unexpended construction related contract commitments of approximately \$210,013.

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, 2007. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

NOTE 12 - TAX, SPENDING AND DEBT LIMITATIONS

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 12 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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 issued \$112,000,000 in Variable Rate Refunding and Improvement Revenue Bonds, Series 2008 (2008 Bonds), on March 20, 2008. The 2004 Bonds were refunded on April 1, 2008 using these bond proceeds. On March 20, 2008, the 2008 Bonds also repaid \$5,975,894 of Developer advances under the various Advance and Reimbursement Agreements for capital costs, and the accrued interest through the repayment date in the total amount of \$752,998. The proceeds from the 2008 Bonds were also used to terminate the 2005 swap, with a termination payment of \$4,885,000; fund a Debt Service Reserve Account; fund a Construction Fund for further acquisition and construction of certain public infrastructure improvements in the District required for the Development, consisting generally of streets, water, sanitary sewer, park and recreation, and related improvements; and to pay certain costs related to the issuance of the Series 2008 Bonds. Under the terms of the 2008 Bonds, the RSF Corp. no longer has to pledge funds to the District for collateral.

SUPPLEMENTAL INFORMATION

CENTERRA METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2007

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Net investment income	\$ 205,850	\$ 199,413	\$ (6,437)
Public improvement fees	830,000	368,650	(461,350)
URA revenues	2,938,846	3,137,951	199,105
Total revenues	<u>3,974,696</u>	<u>3,706,014</u>	<u>(268,682)</u>
EXPENDITURES			
Debt service			
Paying agent/trustee/banking fees	20,000	10,736	9,264
Interest expense - Bonds	1,803,750	1,796,927	6,823
Letter of credit fees	1,559,252	1,519,411	39,841
Bond interest and LOC fees - 2007 issue	820,000	-	820,000
Remarketing fees	62,000	57,078	4,922
City of Loveland collection fee	73,844	73,844	-
Contingency	250,000	-	250,000
Total expenditures	<u>4,588,846</u>	<u>3,457,996</u>	<u>1,130,850</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(614,150)</u>	<u>248,018</u>	<u>862,168</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	6,020,000	9,965	(6,010,035)
Transfers out	(205,850)	(198,899)	6,951
Total other financing sources (uses)	<u>5,814,150</u>	<u>(188,934)</u>	<u>(6,003,084)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	5,200,000	59,084	(5,140,916)
FUND BALANCES - BEGINNING OF YEAR	<u>4,091,093</u>	<u>4,122,364</u>	<u>31,271</u>
FUND BALANCES - END OF YEAR	<u>\$ 9,291,093</u>	<u>\$ 4,181,448</u>	<u>\$ (5,109,645)</u>

See the accompanying independent certified public accountants report.

CENTERRA METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2007

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Bond proceeds	\$ 42,000,000	\$ -	\$ (42,000,000)
Net investment income	150,000	199,696	49,696
Public improvement fees	1,500,000	414,250	(1,085,750)
Storm Water Reimbursement - City of Loveland	-	143,631	143,631
Total revenues	<u>43,650,000</u>	<u>757,577</u>	<u>(42,892,423)</u>
EXPENDITURES			
Current			
District management	480,000	429,115	50,885
Engineering	20,000	13,561	6,439
Legal	15,000	56,547	(41,547)
Reimbursement per Waterline Agreement - Principal	-	137,216	(137,216)
Reimbursement per Waterline Agreement - Interest	-	31,784	(31,784)
Warranty costs	-	508,184	(508,184)
Capital outlay			
Water	3,275,500	204,084	3,071,416
Streets	24,974,000	4,920,199	20,053,801
Transportation	200,000	-	200,000
Park and recreation	14,100,000	1,096,534	13,003,466
Sewer and storm sewer	3,350,000	266,307	3,083,693
Contingency	300,000	-	300,000
Total expenditures	<u>46,714,500</u>	<u>7,663,531</u>	<u>39,050,969</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,064,500)</u>	<u>(6,905,954)</u>	<u>(3,841,454)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	205,850	198,899	(6,951)
Transfers out	(6,020,000)	-	6,020,000
Bond issue costs	(1,500,000)	-	1,500,000
Developer advance	5,255,500	3,077,924	(2,177,576)
Total other financing sources (uses)	<u>(2,058,650)</u>	<u>3,276,823</u>	<u>5,335,473</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(5,123,150)</u>	<u>(3,629,131)</u>	<u>1,494,019</u>
FUND BALANCES - BEGINNING OF YEAR	<u>5,202,402</u>	<u>5,986,527</u>	<u>784,125</u>
FUND BALANCES - END OF YEAR	<u>\$ 79,252</u>	<u>\$ 2,357,396</u>	<u>\$ 2,278,144</u>

See the accompanying independent certified public accountants report.

CENTERRA METROPOLITAN DISTRICT NO. 1
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2007

\$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>
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>\$ 32,005,321</u>	<u>\$ 89,005,321</u>

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

See the accompanying independent certified public accountants report.