

CENTERRA METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2015

TABLE OF CONTENTS

	PAGE
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	I
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	III
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position.....	1
Statement of Activities.....	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	5
Notes to Financial Statements.....	6
REQUIRED SUPPLEMENTAL INFORMATION.....	26
General Fund – Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual.....	27
SUPPLEMENTAL INFORMATION.....	28
Debt Service Fund – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual.....	29
Capital Projects Fund – Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual.....	30



**JOHN CUTLER
& ASSOCIATES**

Board of Directors
Centerra Metropolitan District No. 1
Larimer County, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Centerra Metropolitan District No. 1, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Centerra Metropolitan District No. 1, as of December 31, 2015, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required budgetary information on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

John Luthr & Associates, LLC

July 28, 2016

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, 2015.

Financial Highlights

- Liabilities exceeded assets by \$76,032,978 at the end of the fiscal year. This deficit of net position is largely due to the District being responsible for the repayment of debt used for public improvements which were subsequently dedicated to other governments.
- At December 31, 2015, the District's governmental funds reported combined ending fund balances of \$30,068,508. This combined fund balance includes \$10,101,853 of Debt Service Fund balance and \$18,897,983 of Capital Projects Fund balance.
- Total net position decreased by \$47,428 at the end of the fiscal year. This decrease is attributable to the dedication of capital assets to other governments and increase in debt.
- Total cash and investments increased by \$7,965,211 as compared to 2014. The increase in cash and investments is due to unspent loan proceeds received in late 2015.
- General Fund expenditures were \$1,239,644 for the year ended December 31, 2015. The expenditures included in the General fund are those costs incurred to provide the administration of the District and include accounting, legal, management, insurance, utilities, landscape maintenance and other costs.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$901,118, or 72.7% of total General Fund expenditures.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash*

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 3-5 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 6-25 of this report.

Other Information. The report includes individual fund schedules. A budgetary comparison statement has been provided in this section for the General Fund, Debt Service Fund and the Capital Projects Fund to demonstrate compliance with these budgets. The budget statements are found after the *basic financial statements* on pages 27-30 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's liabilities exceeded assets by \$76,032,978 at the close of the most recent fiscal year.

Net Position

	December 31,	
	<u>2015</u>	<u>2014</u>
Current assets	\$ 33,536,937	\$ 25,326,102
Capital assets	30,585,175	30,512,313
Deferred outflow of derivative instruments	19,213,546	18,774,954
Total assets	<u>83,335,658</u>	<u>74,613,369</u>
Current liabilities	4,018,520	4,141,073
Long-term obligations	137,090,174	128,200,000
Liability for derivative instruments	18,259,941	18,257,846
Total liabilities	<u>159,368,635</u>	<u>150,598,919</u>
Net investment in capital assets	(28,769,089)	(24,034,580)
Restricted	29,037,037	20,650,954
Unrestricted	<u>(76,300,925)</u>	<u>(72,601,924)</u>
Total net position	<u>\$ (76,032,977)</u>	<u>\$ (75,985,550)</u>

The District's current assets increased \$8,210,835 mainly due to increases in cash and investments of \$7,965,211. The cash and investments are used mainly to construct capital assets and make debt payments.

Change in Net Position

	December 31,	
	2015	2014
Revenue		
General revenue		
LURA revenues	\$ 11,354,929	\$ 10,676,027
Net investment income and other income	17,348	25,944
Intergovernmental revenue - District No. 2 & 3	411,209	394,244
Capital reimbursement	1,521,815	-
Program revenue		
Charges for services	59,536	54,918
Total revenues	\$ 13,364,837	\$ 11,151,133
Expenses		
General government	\$ 3,002,082	\$ 3,352,466
Dedication of capital assets to other governments	979,451	3,087,781
Interest and related costs on long-term debt	6,462,458	7,314,393
Loss on disposal of assets	2,968,273	-
Total expenses	\$ 13,412,264	\$ 13,754,640
Change in Net Position	(47,427)	(2,603,507)
Net Position - Beginning	(75,985,550)	(73,382,043)
Net Position - Ending	\$ (76,032,977)	\$ (75,985,550)

The District's main revenue sources for 2015 were revenues from the Loveland Urban Renewal Authority (LURA), intergovernmental revenue, Public Improvement Fees and investment income. The majority of the expenses for general government were accounting, legal, landscape maintenance, Chapungu Park, utilities, management and administration, for both administrative and capital functions, totaling \$1,096,997. The interest and related costs on long-term debt include interest, principal, debt fees, swap payments, paying agent fees, trustee fees, interest expense on capital advances, and collection fees paid to the City of Loveland.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflow, and balances of *spendable* resources. Such information is useful

in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$30,068,508. *Unassigned fund balance* constitutes \$901,118 of this total amount and is available for spending at the government's discretion.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, restricted fund balance of the General Fund was \$37,200, nonspendable fund balance was \$40,304, assigned fund balance was \$90,050, and the unassigned fund balance was \$901,118 for a total fund balance of \$1,068,672.

The Debt Service Fund has a total fund balance of \$10,101,853, all of which is restricted for repayments on debt service.

The Capital Projects Fund has a total fund balance of \$18,897,983, all of which is restricted for the construction of infrastructure.

General Fund Budgetary Highlights

During the year ended December 31, 2015, the District incurred actual expenditures of \$1,239,644 in the General Fund. The difference between actual and budgeted expenditures of \$1,449,284 was \$209,640. Notable savings were achieved in several expense categories, including savings of \$56,563 for hardscape maintenance.

Capital Assets

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

Long-Term Debt

On December 4, 2014, the District entered into a \$139,700,000 Loan Agreement (2014 Loan) which was used to repay the 2011 Loan and provided additional funds for construction, debt issuance costs and increased debt service reserve. At closing, the District was funded \$128,200,000. The remaining \$11,500,000 was retained by the lender and was made available through advances until fully funded on December 9, 2015.

At the end of the current fiscal year, the District had total outstanding loan indebtedness of \$135,927,500. The District's 2014 Loan matures on December 4, 2021. At or prior to maturity, the District anticipates entering into a new loan agreement or remarketing the debt in the form of bonds. The District pays a synthetically fixed interest rate of 3.46% plus bank fees of 1.95% on the original amount of \$101,670,000, 3.556%, inclusive of 2.0625% of bank fees on the original amount of \$8,030,000 and 2.058% plus bank fees of 1.95% on the original amount of \$18,500,000 through maturity due to swap agreements in place at December 31, 2015. Interest payments are made quarterly.

Additional information on the District's long-term debt can be found in Note 6 of this report.

Next Year’s Budgets and Rates

In 2016, budgeted expenditures for the General fund are \$1,418,414 and are anticipated to be primarily funded by LURA revenues and services fees from District No. 2.

Requests for Information

This financial report is designed to provide a general overview of the finances for Centerra Metropolitan District No. 1. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Centerra Metropolitan District No. 1, c/o Pinnacle Consulting Group, Inc., 1627 East 18th Street, Loveland, CO 80538.

BASIC FINANCIAL STATEMENTS

CENTERRA METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	1,058,947
Cash and investments - Restricted	32,164,606
Service fees receivable	34,545
Other receivable	229,104
Prepaid insurance expense	40,304
Construction & Landscaping Deposit	9,431
Capital assets not being depreciated	
Construction in progress	5,954,718
Water rights	3,423,082
Capital assets, net	<u>21,207,375</u>
Total assets	<u>64,122,112</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Liability for derivative instruments	<u>19,213,546</u>
Total deferred outflows of resources	<u>19,213,546</u>
 LIABILITIES	
Accounts payable	1,041,230
Loan interest payable	550,092
Unearned PIF revenue	2,092,392
Unearned LURA revenue	334,806
Noncurrent liabilities	
Due within one year	4,417,500
Due in more than one year	132,672,674
Deferred liability for derivative instruments	<u>18,259,941</u>
Total liabilities	<u>159,368,635</u>
 NET POSITION	
Net investment in capital assets	(28,769,089)
Restricted for:	
Emergency reserves	37,200
Debt service	10,101,854
Capital projects	18,897,983
Unrestricted	<u>(76,300,925)</u>
Total net position	<u><u>(76,032,977)</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, 2015

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Government activities:				
General government	\$ 3,002,082	\$ -	\$ -	(3,002,082)
Dedication of capital assets to other government	979,451	-	-	(979,451)
Interest related costs on long-term debt	6,462,458	59,536	-	(6,402,922)
Total governmental activities:	<u>\$ 10,443,991</u>	<u>\$ 59,536</u>	<u>\$ -</u>	<u>(10,384,455)</u>
General revenues:				
Net investment income and other income			17,348	
Service fees - District No. 2, 3 & 5			411,209	
Capital reimbursement			1,521,815	
LURA revenues			11,354,929	
Loss on disposal of assets			(2,968,273)	
Total general revenues			<u>10,337,028</u>	
Change in net position			(47,427)	
Net Position - Beginning			(75,985,550)	
Net Position - Ending			<u>(76,032,977)</u>	

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

CENTERRA METROPOLITAN DISTRICT NO. 1

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2015

	General	Debt Service	Capital Projects	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and investments	1,058,947	-	-	1,058,947
Cash and investments - Restricted	37,200	12,562,893	19,564,513	32,164,606
Receivable - Service fees	33,104	1,441	-	34,545
Construction & Landscaping deposit	-	-	9,431	9,431
Other receivable	173	-	228,931	229,104
Prepaid insurance	40,304	-	-	40,304
TOTAL ASSETS	<u>1,169,728</u>	<u>12,564,334</u>	<u>19,802,875</u>	<u>33,536,937</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	101,056	35,282	904,892	1,041,230
Unearned PIF revenue	-	2,092,392	-	2,092,392
Unearned LURA revenue	-	334,806	-	334,806
Total liabilities	<u>101,056</u>	<u>2,462,480</u>	<u>904,892</u>	<u>3,468,428</u>
FUND BALANCES				
Nonspendable	40,304	-	-	40,304
Restricted	37,200	10,101,854	18,897,983	29,037,037
Assigned	90,050	-	-	90,050
Unassigned	901,118	-	-	901,118
Total fund balances	<u>1,068,672</u>	<u>10,101,854</u>	<u>18,897,983</u>	<u>30,068,509</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>1,169,728</u>	<u>12,564,334</u>	<u>19,802,875</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.	
Capital assets, not being depreciated	9,377,800
Capital assets, net	21,207,375
Long-term liabilities, including a loan payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Loan payable	(135,927,500)
Loan interest payable	(550,092)
Capital advance payable	(1,150,184)
Capital advance interest payables	(12,490)
Net difference on derivative instruments	953,605
Net position of governmental activities	<u>(76,032,977)</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 BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2015

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Service fees - District 2, 3 & 5	\$ 386,138	\$ 25,071	\$ -	\$ 411,209
Net investment and other income	6,999	6,160	4,189	17,348
Public improvement fees	-	59,536	-	59,536
LURA revenues	812,873	10,542,056	-	11,354,929
Total Revenues	<u>1,206,010</u>	<u>10,632,823</u>	<u>4,189</u>	<u>11,843,022</u>
EXPENDITURES				
Current				
Accounting & financial management	137,120	-	-	137,120
Audit	16,500	-	-	16,500
Chapungu Park	147,723	-	-	147,723
Directors' fees	3,476	-	-	3,476
District management	149,629	-	9,526	159,155
Engineering	609	-	-	609
Hardscape maintenance	55,637	-	-	55,637
Insurance and bonds	29,998	-	-	29,998
Landscape maintenance	356,832	-	-	356,832
Legal	204,230	-	-	204,230
Major Repairs & Replacement	33,634	-	-	33,634
Office expense/miscellaneous	6,398	-	-	6,398
Snow removal and sidewalk sweeping	5,921	-	-	5,921
Utilities	91,937	-	-	91,937
Debt service				
Paying agent/trustee/banking fees	-	6,500	-	6,500
Principal payments	-	3,772,500	-	3,772,500
Interest expense	-	6,552,193	-	6,552,193
Debt fees	-	242,093	-	242,093
City of Loveland collection fees	-	59,536	-	59,536
Debt issue costs	-	-	3,782	3,782
Capital outlay	-	-	5,773,498	5,773,498
Total expenditures	<u>1,239,644</u>	<u>10,632,822</u>	<u>5,786,806</u>	<u>17,659,272</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(33,634)</u>	<u>1</u>	<u>(5,782,617)</u>	<u>(5,816,250)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	11,500,000	11,500,000
Capital advance	-	-	1,150,184	1,150,184
Capital reimbursement	-	-	1,521,815	1,521,815
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>14,171,999</u>	<u>14,171,999</u>
NET CHANGE IN FUND BALANCES	(33,634)	1	8,389,382	8,355,749
FUND BALANCES - BEGINNING OF YEAR	<u>1,102,306</u>	<u>10,101,853</u>	<u>10,508,601</u>	<u>21,712,760</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,068,672</u>	<u>\$ 10,101,854</u>	<u>\$ 18,897,983</u>	<u>\$ 30,068,509</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, 2015**

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

Net change in fund balances - Total governmental funds	\$ 8,355,749
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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 of the estimated useful life of the asset.

Capital outlay	5,773,497
Loss on disposal	(2,968,273)
Dedication of infrastructure to other governments	(979,451)
Depreciation	(1,752,911)

The issuance of long-term debt (e.g., bonds, advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Also, governmental funds report the effect of issuance 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.

Current year debt - Developer advance	(1,150,184)
Current year debt - loan proceeds	(11,500,000)
Current year repayment of debt principal	3,772,500

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

Accrued interest on capital advance - Change in liability	(12,490)
Accrued interest on loan payable - Change in liability	(22,361)
Net change in derivative instruments	436,497

Changes in net position of governmental activities	<u>\$ (47,427)</u>
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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
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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), Centerra Metropolitan District No. 4 (Regional Improvements District) and Centerra Metropolitan District No. 5 (Industrial District).

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

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

On January 26, 2004, Centerra Public Improvement Collection Corporation (PIC Corporation) and the Centerra Retail Sales Fee Corporation (RSF Corporation) were formed. Both PIC Corporation and RSF Corporation are nonprofit corporations that were formed for the purpose of adopting and imposing Declarations and Covenants on property within Centerra and for the purpose of imposing and collecting certain fees. PIC and RSF Corporations have entered into an agreement with the District whereby on June 4, 2004, PIC and RSF Corporations have agreed to remit to the District certain revenues received from fees imposed by PIC and RSF Corporations in consideration of the District's financing, construction and operation of public improvements which benefit the members of PIC and RSF Corporations. In the refinancing of the 2004 bonds in March of 2008, the RSF Corporation was released from its agreement.

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, 2015

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The District reports the following major governmental funds:

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

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

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

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

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 total appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Capital Assets

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

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

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

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

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Equity

The Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for reporting periods beginning after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of nonspendable and spendable resources. The District adopted this in fiscal year 2011 and has disclosed this information in Note 8 (Fund Balance).

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of December 31, 2015 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 1,058,947
Cash and investments - Restricted	<u>32,164,606</u>
Total cash and investments	<u>\$ 33,223,553</u>

Cash and investments as of December 31, 2015, consist of the following:

Deposits with financial institutions	\$ 518,770
Investments	<u>32,704,783</u>
Total cash and investments	<u>\$ 33,223,553</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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, 2015, the District's cash deposits had a bank balance of \$601,601 that was either federally insured or collateralized by PDPA, and a carrying balance of \$518,770.

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 local government investment pools, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

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

- Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2015, the District had the following investments:

<u>Government Activities</u>	Standard and Poor's Rating	<u>Investment Maturity (in Years)</u>			
<u>Investment Type</u>		<u>Less than 1</u>	<u>1-3</u>	<u>4-5</u>	<u>Total</u>
Local Government Investment Pool	AAAm	\$ 1,410,645	\$ -	\$ -	\$ 1,410,645
US Bank Money Market	Not Rated	13,096,684	-	-	13,096,684
Public Funds Money Market	Not Rated	18,197,454	-	-	18,197,454
		<u>\$ 32,704,783</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,704,783</u>

COLOTRUST

During 2015, the District 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 up to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+, both of which are rated AAAM from Standard and Poor's. 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, 2015, the Centerra Metropolitan District No. 1 had \$1,410,645 invested in COLOTRUST PRIME.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2015, follows:

	<u>Balance at December 31, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2015</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 4,128,945	\$ 5,773,497	\$ 3,947,724	\$ 5,954,718
Water rights	3,423,082	-	-	3,423,082
Total capital assets, not being depreciated	<u>7,552,027</u>	<u>5,773,497</u>	<u>3,947,724</u>	<u>9,377,800</u>
Capital assets, being depreciated:				
Monumentation	4,550,218	-	-	4,550,218
Landscape improvements	8,726,633	-	-	8,726,633
Promenade shops	20,988,826	-	-	20,988,826
Sanitary sewer and storm drainage	118,843	-	-	118,843
Streets	673,695	-	-	673,695
Total capital assets, being depreciated:	<u>35,058,215</u>	<u>-</u>	<u>-</u>	<u>35,058,215</u>
Less accumulated depreciation for:				
Monumentation	1,985,352	227,511	-	2,212,863
Landscape improvements	3,134,577	436,332	-	3,570,909
Promenade shops	6,787,542	1,049,441	-	7,836,983
Sanitary sewer and storm drainage	27,163	5,942	-	33,105
Streets	163,295	33,685	-	196,980
Total accumulated depreciation:	<u>12,097,929</u>	<u>1,752,911</u>	<u>-</u>	<u>13,850,840</u>
Total capital assets, being depreciated, net	<u>22,960,286</u>	<u>(1,752,911)</u>	<u>-</u>	<u>21,207,375</u>
Governmental activities capital assets, net	<u>\$ 30,512,313</u>	<u>\$ 4,020,586</u>	<u>\$ 3,947,724</u>	<u>\$ 30,585,175</u>

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

Governmental Activities:	
General government	\$ 1,752,911
Total depreciation expense - Governmental activities	<u>\$ 1,752,911</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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, 2015.

	<u>Balance at December 31, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2015</u>	<u>Due Within One Year</u>
Loan agreement	\$ 128,200,000	\$ 11,500,000	\$ (3,772,500)	\$ 135,927,500	\$ 4,417,500
Interest on loan agreement	527,731	6,574,554	(6,552,193)	550,092	550,092
Capital advances	-	1,150,184	-	1,150,184	-
Interest on capital advances	-	12,490	-	12,490	-
	<u>\$ 128,727,731</u>	<u>\$ 19,237,228</u>	<u>\$ (10,324,693)</u>	<u>\$ 137,640,266</u>	<u>\$ 4,967,592</u>

2014 Loan Agreement A loan agreement (2014 Loan) dated December 4, 2014 was issued in the original amount of \$139,700,000 for the purpose of: (i) refunding the District's outstanding 2011 Loan; (ii) acquiring and constructing certain public infrastructure improvements in the District required for the Development, consisting generally of streets, water, sanitary sewer, park and recreation, and related improvements, including reimbursements to the Developer for amounts advanced for such purposes; and (iii) paying certain costs related to the issuance of the 2014 Loan. The 2014 Loan establishes a variable interest rate of 1.95% plus 75% of the London Interbank Offered Rate (LIBOR), payable quarterly. On the loan issuance date, the District was funded \$128,200,000. The remaining \$11,500,000 was retained by the lender and was made available through advances until fully funded on December 9, 2015. The 2014 Loan matures on December 4, 2021. At or prior to maturity, the District anticipates entering into a new loan agreement or remarketing the debt in the form of bonds. The 2014 loan requires annual principal payments starting on December 1, 2015.

The loan is secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: (1) Tax Increment Financing (TIF) Revenues derived from the Required Mill Levy, (2) Public Improvement Fee (PIF) Revenues, and (3) any other legally available monies which the District determines to be treated as Pledged Revenue. The loan is also secured by amounts held by the Custodian in the Reserve Fund(s). Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of Centerra Metropolitan District No. 2 each year in a amount sufficient to pay the principal, premium if any, and interest on the bonds as the same become due and payable and to make up any deficiencies in the Reserve Fund. The maximum Required Mill Levy is 72 mills and the minimum Mill Levy is 35 mills, with respect to Centerra Metropolitan District No. 2, adjusted for changes in the ratio, if any, of actual value to assessed value of property within the District. As of December 31, 2015, the adjusted maximum mill levy is 72 mills and the adjusted minimum mill levy is 35 mills. For collection year 2015, the District levied 42.6 mills with respect to District No. 2, 6.655 mills for District No. 2 Bond and 35.000 mills for District No. 2 Residential Debt.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Flow of Funds

Pursuant to the Loan Agreement, the Custodian has established a Debt Service Fund. Pursuant to the Custodial Agreement, the District is to deposit the following pledged revenues into the Debt Service Fund: i) Tax Increment Financing (TIF) Revenues; and ii) Residential Contributions, defined by the "Residential District IGA" as an amount equal to the assessment of 5 mills against taxable property within the Residential District (Centerra Metropolitan Districts 2 - 4), from the earlier of: (a) the issuance of the first certificate of occupancy in the Residential District; or (b) January 1, 2009, through at least August 19, 2029. Also, the Custodial Agreement requires that the following Collateral Revenues are to be deposited in the following subaccounts of the Collateral Revenue Fund: i) into the PIF Revenue Account all Public Improvement Fee (PIF) Revenues; ii) into the S/O Tax Revenue Account, all specific ownership tax revenues. The revenues deposited into the Debt Service Fund and the Collateral Revenue Fund are to be used as set forth below.

Debt Service Fund

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

- i) Payment of Fees due to the Custodian.
- ii) Payments on debt service on the 2014 Loan, and then payments on the swap agreements with Royal Bank of Canada (RBC) and Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) (see Note 10).
- iii) Payments to replenish the Debt Service Reserve Funds to the extent that the Debt Service Fund Requirement is not being met.
- iv) Payment for Swap Termination if needed.

- v) Payment to the Loveland Urban Renewal Authority (LURA) as the Regional Allocation pursuant to the terms of the Master Financing Agreement (MFA).
- vi) Payment for operations of the District, not to exceed the District's annual operating budget and not greater than \$167,000 per month when combined with transfers made from the Collateral Revenue Fund, without prior written consent of the majority bank.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Collateral Revenue Fund

Amounts deposited into 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 PIF Revenue Account then from the S/O Tax Revenue Account:

- i) From the amount on deposit in the PIF Revenue Account to the City for any unpaid fees or expenses due under the terms on the Collection Agreement.
- ii) From amounts on deposit in the PIF Revenue Account to the PIF Debt Requirement Account of the Debt Service Fund, to fund any insufficiencies of the Debt Service Fund as outlined above.
- iii) Solely from the amounts on deposit in the PIF Revenue Account to the LURA as the Regional Allocation pursuant to the terms of the MFA.
- iv) Payment for operations of the District, not to exceed the District's annual operating budget and not greater than \$167,000 per month when combined with transfers made from the Debt Service Fund, without prior written consent of the majority bank.

The District amended the existing swap agreement with Royal Bank of Canada (RBC) for the purpose of creating a synthetic fixed interest rate of 5.410% (1.95% bank rate plus 3.46% swap rate) with per annum on \$101,670,000 of the 2014 Loan (See Note 10).

The District entered into an additional swap agreement with Royal Bank of Canada (RBC) during 2014 for the purpose of creating a synthetic fixed interest rate of 4.008% (1.95% bank rate plus 2.058% swap rate) with per annum on \$18,500,000 of the 2014 Loan (See Note 10).

The District entered into a swap agreement with Banco Bilbao Vizcaya Argentaria (BBVA) during 2011 for the purpose of creating a synthetic fixed interest rate of 3.556% per annum on \$8,030,000 of the 2014 Loan (See Note 10).

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term obligations, using the synthetic fixed interest rates, mature as follows:

	Governmental Activities		
	Principal	Interest	Total
2016	\$ 4,417,500	\$ 6,321,008	\$ 10,738,508
2017	4,587,500	6,105,220	10,692,720
2018	4,922,500	5,904,019	10,826,519
2019	5,167,500	5,659,407	10,826,907
2020	5,412,500	5,402,172	10,814,672
2021	111,420,000	5,134,713	116,554,713
	\$ 135,927,500	\$ 34,526,539	\$ 170,454,039

Refunding

On December 4, 2014, the District refunded and defeased (debt legally satisfied) \$121,321,609 of the 2011 Loan dated June 8, 2011, with a variable interest rate of 2.0625% plus 75% of LIBOR, by the issuance of the 2014 Loan for \$139,700,000 dated December 4, 2014, with a variable interest rate of 1.95% plus 75% of LIBOR. The District refunded the 2011 Series bonds to obtain additional loan funds. There was an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$890,872. Restrictions on the monies restricted for interest payments and the reserve account pertaining to the defeased loan were removed under the new refunding. The defeased loan is not considered a liability of the District since sufficient funds in the amount of \$121,321,609 were deposited with a trustee for the purpose of paying the principal and interest of the defeased loan on December 4, 2014, at which point the loan was repaid in its entirety from funds in the escrow account.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On May 4, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$5,350,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2015, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Amount Authorized May 4, 2004</u>	<u>Authorization Used 2004/2008 Bonds</u>	<u>Authorization Used 2011 Loan</u>	<u>Authorization Used 2014 Loan</u>	<u>Authorized But Unissued</u>
Street improvement	\$ 350,000,000	\$ 52,653,216	\$ 13,905,576	\$ 15,026,250	\$ 268,414,958
Traffic and safety controls	350,000,000	3,335,311	7,297		346,657,392
Water supply system	350,000,000	8,559,504	924,395	1,849,463	338,666,638
Sanitary sewer and storm drainage	350,000,000	25,818,969	3,220,074	4,676,864	316,284,093
Parks and recreation	350,000,000	14,067,600	215,365	45,814	335,671,221
Public transportation	350,000,000	125,400			349,874,600
Television relay and transmission	350,000,000		128,902		349,871,098
Mosquito control	350,000,000				350,000,000
Fire protection	350,000,000				350,000,000
Administrative/management services	50,000,000				50,000,000
Refinancing district debt	700,000,000	64,440,000	110,920,000	121,321,609	403,318,391
Intergovernmental agreements among Centerra Metropolitan Districts Nos. 1-5	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>\$ 169,000,000</u>	<u>\$ 129,321,609</u>	<u>\$ 142,920,000</u>	<u>\$ 4,908,758,391</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 6 – NET POSITION

The District’s net position consists of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds and other borrowings that are attributable to the acquisition, constructions, or improvement of those assets. As of December 31, 2015, the District had investment in capital assets, net of related debt calculated as follows:

	Governmental Activities
Net investment in capital assets:	
Capital assets, net	\$ 30,585,174
Unspent debt proceeds	4,703,884
Current and noncurrent portion of long-term obligations	(64,058,147)
Net investment in capital assets	\$ (28,769,089)

Restricted net position include 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 position as of December 31, 2015 as follows:

	Governmental Activities
Restricted net position:	
Emergencies (see Note 2)	\$ 37,200
Debt service	10,101,854
Capital projects	18,897,983
Total restricted net position	\$ 29,037,037

The District's unrestricted net position as of December 31, 2015 totaled \$(76,032,978). This deficit amount was a result of the District being responsible for the financing and repayment of debt issued for the construction of public improvements which were conveyed to other governmental entities and which assets were removed from the District's financial records.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7 – FUND BALANCE

The District has adopted GASB Statement Number 54, *Fund Balance Reporting and Governmental Funds Type Definitions*. Based on that statement, fund balances of the governmental funds are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of District's Board. The Board is the highest level of decision-making body for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed by that are intended to be used for specific purposes. Only the Board may assign fund balances for specific purposes.

Unassigned – All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7 – FUND BALANCE (CONTINUED)

As of December 31, 2015, fund balances are composed of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Prepaid expenses	\$ 40,304	\$ -	\$ -	\$ 40,304
Restricted:				
Emergency reserve	37,200	-	-	37,200
Debt Service	-	10,101,854	-	10,101,854
Capital	-	-	18,897,983	18,897,983
Assigned:	90,050	-	-	90,050
Unassigned:	901,118	-	-	901,118
	<u>\$ 1,068,672</u>	<u>\$ 10,101,854</u>	<u>\$ 18,897,983</u>	<u>\$ 30,068,509</u>

NOTE 8 – RELATED PARTY

The owners of portions of the property served by the District are Centerra Investments, LLC (CI, LLC); Centerra Properties West, LLC (CPW); and SMP4 Investments, Inc. (SMP4). The Developer of the property is affiliated with CI, LLC, CPW, and SMP4. The members of the Board of Directors are employees, owners or are otherwise associated with the Developer and have disclosed any potential conflicts of interest in taking action on matters brought before the Board. The District has repaid all amounts owed to CI, LLC, CPW, and SMP4 as of December 31, 2015 (See Note 5).

NOTE 9 – AGREEMENTS

Master Financing Agreement

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 – AGREEMENTS (CONTINUED)

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 February 9, 2015, the District entered into two Advance and Reimbursement Agreements with Poudre Valley Health Care, Inc., (“PVHS”), which authorized the issuance of two promissory notes to the PVHS in a principal amount not to exceed \$125,000 (Design) and \$1,448,258 (Construction), respectively. The two notes bear simple interest at the rate of two percent plus the Federal Reserve Bank Prime Rate, or six percent, whichever is greater. The balance due at December 31, 2015 is \$1,150,184 (see Note 5).

Interest Rate Swaps

On March 20, 2008, the District entered into a swap agreement with RBC for the notional amount of \$112,000,000 (referred to as the 2008 swap). On June 8, 2011, the District amended the 2008 swap with RBC to change payment based on the Securities Industry and Financial Markets Association Swap Index (SIFMA) to LIBOR.

On June 8, 2011, the District entered into a swap agreement with BBVA for the notional amount of \$10,000,000 (referred to as the 2011 swap).

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

Objective of the interest rate swaps. The objective of each interest rate swap is to offset the variability of cash flows in the interest payments of the variable-rate debt due to fluctuations in interest rates and to lower its borrowing costs, when compared to against fixed rate bonds at the time of issuance in June 2011.

Terms. The 2008 swap’s current notional amount is \$98,820,000 and matures on December 1, 2029. The principal amount of the 2014 Loan exceeds the notional amount of the 2008 swap. Under the swap, the District pays the counterparty a fixed payment of 3.46% through December 1, 2029, and receives a variable payment based on the LIBOR Index.

The 2011 swap’s current notional amount is \$7,385,000 and matures on June 8, 2016. The principal amount of the 2014 Loan exceeds the notional amount of the 2011 swap. Under the swap, the District pays the counterparty a fixed payment of 3.556%, all-in, including 2.0625% of bank fees, and receives a variable payment based on the LIBOR Index.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 – AGREEMENTS (CONTINUED)

The 2014 swap’s current notional amount is \$18,222,500 and matures on December 1, 2029. The principal amount of the 2014 Loan exceeds the notional amount of the 2014 swap. Under the swap, the District pays the counter party a fixed payment of 2.058% and receives a variable payment based on the LIBOR Index.

Fair Value. Derivative instruments are required to be reported at fair value. The fair value of the interest rate swaps were estimated using the zero-coupon method. The changes in fair value of hedging derivative instruments are reported as deferred outflows and inflows, whereas the changes in the fair value of investment derivative instruments are immediately reported on the statement of activities. The fair market value and change in fair market value are as follows:

	<u>Fair Value at December 31, 2015</u>		<u>Changes in Fair Value</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swap	Derivatives	\$ (3,326,051)	Deferred outflow	\$ 3,326,051	\$ 124,427,500

Objective and Terms of Hedging Derivative Instruments. The following table displays the objective and terms of the hedging derivative instruments outstanding at the end of the period; amounts in thousands.

Type	Objective	Notional Amount	Trade Date	Termination Date	Terms	Counterparty Rating
Pay-fixed Interest rate swap	Hedge interest rate risk on variable-rate debt	98,820	03/19/08	12/01/29	Pay 3.46% Receive 1m LIBOR * 75%	Aa3
Pay-fixed Interest rate swap	Hedge interest rate risk on variable-rate debt	7,385	06/08/11	06/08/16	Pay 3.556% Receive 1m LIBOR * 75% + 2.0625%	Baa3
Pay-fixed Interest rate swap	Hedge interest rate risk on variable-rate debt	18,223	12/04/14	12/01/29	Pay 2.058% Receive 1m LIBOR * 75%	Aa3

Credit Risk. As of December 31, 2015, the District is not exposed to the credit risk of its counterparties. The District is unaware of any circumstance or condition that would preclude the counterparties from not complying with the terms of the derivative agreements. The 2008 swap, 2011 swap and 2014 swap counterparties were rated Baa3 or higher from Moody’s as of December 31, 2015.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 – AGREEMENTS (CONTINUED)

Interest Rate Risk. The 2008 swap, 2011 swap and 2014 swap are pay-fixed, receive-variable cash flow hedge that hedges interest rate risk associated with the 2014 loan. The District believes it has significantly reduced interest rate risk attributable to the principal amount being hedged by entering into the interest rate swap.

Termination Risk. The District or the counterparties 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. Termination of the swaps can occur when the swap is in a potentially significant liability position.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of December 31, 2015, the District had unexpended construction commitments of \$2,234,194.

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, 2015. 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, 2015

NOTE 12 – TAX, SPENDING AND DEBT LIMITATIONS

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. For the year ended December 31, 2015, the District had \$37,200 reserved for emergencies.

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 EVENTS

The District has evaluated subsequent events through the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

CENTERRA METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2015

	<u>Budget Amounts</u>		<u>Variance with</u>
	<u>Original and</u>	<u>Actual</u>	<u>Final Budget</u>
	<u>Final</u>	<u>Amounts</u>	<u>Positive</u>
			<u>(Negative)</u>
REVENUES			
Service fees - District 2	\$ 347,664	\$ 385,670	\$ 38,006
Service fees - District 3	370	377	7
Service fees - District 5	75	91	16
Net investment and other income	9,000	6,999	(2,001)
LURA revenues (O&M)	973,875	812,873	(161,002)
Total Revenues	<u>1,330,984</u>	<u>1,206,010</u>	<u>(124,974)</u>
EXPENDITURES			
Accounting & financial management	145,000	137,120	7,880
Audit	14,000	16,500	(2,500)
Chapungu Park	203,747	147,723	56,024
Directors' fees	3,000	3,476	(476)
District management & administration	175,000	149,629	25,371
Engineering & other professional services	10,000	609	9,391
Hardscape maintenance	112,200	55,637	56,563
Insurance	29,990	29,998	(8)
Landscape maintenance and repairs	407,547	356,832	50,715
Legal	110,000	204,230	(94,230)
Major Repairs and Replacement	118,300	33,634	84,666
Office, dues & other	8,000	6,398	1,602
Snow removal and sidewalk sweeping	12,500	5,921	6,579
Utilities	100,000	91,937	8,063
Total expenditures	<u>1,449,284</u>	<u>1,239,644</u>	<u>209,640</u>
EXCESS OF REVENUES OVER			
(UNDER) EXPENDITURES	<u>(118,300)</u>	<u>(33,634)</u>	<u>84,666</u>
FUND BALANCES - BEGINNING OF YEAR	<u>1,038,912</u>	<u>1,102,306</u>	<u>63,394</u>
FUND BALANCES - END OF YEAR	<u>\$ 920,612</u>	<u>\$ 1,068,672</u>	<u>\$ 148,060</u>

See accompanying Independent Auditor's Report

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, 2015

	<u>Budget Amounts</u>		Variance with
	<u>Original and Final</u>	<u>Actual Amounts</u>	Final Budget Positive (Negative)
REVENUES			
Service Fees, District 2	\$ 23,020	\$ 25,071	\$ 2,051
Net investment and other income	115,123	6,160	(108,963)
LURA revenues (Debt Service)	10,686,778	10,542,056	(144,722)
PIF revenues	54,916	59,536	4,620
Total revenues	<u>10,879,837</u>	<u>10,632,823</u>	<u>(247,014)</u>
EXPENDITURES			
Debt service			
Paying agent/trustee/banking fees	5,500	6,500	(1,000)
Principal payment	3,735,000	3,772,500	(37,500)
Interest expense	6,736,011	6,552,193	183,818
Loan fees	248,410	242,093	6,317
City of Loveland collection fees	54,916	59,536	(4,620)
Contingency	100,000	-	100,000
Total expenditures	<u>10,879,837</u>	<u>10,632,822</u>	<u>247,015</u>
EXCESS OF REVENUES			
OVER (UNDER) EXPENDITURES	<u>-</u>	<u>1</u>	<u>1</u>
FUND BALANCES - BEGINNING OF YEAR	<u>10,081,913</u>	<u>10,101,853</u>	<u>19,940</u>
FUND BALANCES - END OF YEAR	<u>\$ 10,081,913</u>	<u>\$ 10,101,854</u>	<u>\$ 19,941</u>

See accompanying Independent Auditor's 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, 2015

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Net investment and other income	\$ 10,801	\$ 10,801	\$ 4,189	\$ (6,612)
Total revenues	<u>10,801</u>	<u>10,801</u>	<u>4,189</u>	<u>(6,612)</u>
EXPENDITURES				
Current				
Project management	25,000	25,000	-	25,000
District management	-	-	9,526	(9,526)
Debt issuance	-	-	3,782	(3,782)
Capital outlay	<u>3,119,750</u>	<u>7,389,938</u>	<u>5,773,498</u>	<u>1,616,440</u>
Total expenditures	<u>3,144,750</u>	<u>7,414,938</u>	<u>5,786,806</u>	<u>1,628,132</u>
EXCESS OF REVENUES				
OVER (UNDER) EXPENDITURES	<u>(3,133,949)</u>	<u>(7,404,137)</u>	<u>(5,782,617)</u>	<u>1,621,520</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	11,500,000	11,500,000
Capital advance	-	-	1,150,184	1,150,184
Capital reimbursement	-	-	1,521,815	1,521,815
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>14,171,999</u>	<u>14,171,999</u>
EXCESS OF REVENUES AND OTHER				
FINANCING SOURCES OVER (UNDER)				
EXPENDITURES AND OTHER USES	<u>(3,133,949)</u>	<u>(7,404,137)</u>	<u>8,389,382</u>	<u>15,793,519</u>
FUND BALANCES - BEGINNING OF YEAR	<u>10,801,345</u>	<u>10,801,345</u>	<u>10,508,601</u>	<u>(292,744)</u>
FUND BALANCES - END OF YEAR	<u>\$ 7,667,396</u>	<u>\$ 3,397,208</u>	<u>\$ 18,897,983</u>	<u>\$ 15,500,775</u>

See accompanying Independent Auditor's Report