

CENTERRA METROPOLITAN DISTRICT NO. 1
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2010

TABLE OF CONTENTS

	PAGE
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	I
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	II
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets.....	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
General Fund – Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual.....	6
Notes to Financial Statements.....	7
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
Schedule of Debt Service Requirements to Maturity.....	31
Five Year Summary of Centerra Metropolitan District No. 2’s Assessed Valuation, Mill Levy and Property Taxes Collected.....	32

HCH, PC
CERTIFIED PUBLIC ACCOUNTANTS

88 Inverness Circle East, M-103
Englewood, CO 80112
(303) 416-0581

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, 2010, 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 an opinion 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 opinion.

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, 2010, 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information presented on pages 28 through 32 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.

HCH, PC

HCH, PC
May 27, 2011

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, 2010.

Financial Highlights

- Liabilities exceeded assets by \$64,659,215 at the end of the fiscal year. This deficit of net assets is largely due to the District being responsible for the repayment of bonds and Developer advances that were used for public improvements and then subsequently dedicated to other governments.
- At December 31, 2010, the District's governmental funds reported combined ending fund balances of \$15,371,106. This combined fund balance includes \$9,413,039 of Debt Service Fund balance, and \$5,079,178 of Capital Projects Fund balance.
- Total net assets decreased by \$12,472,871. A significant portion of this decrease is attributable to the District incurring debt or funding for capital improvements but transferring the related assets to the City of Loveland.
- Total cash and investments decreased by \$6,366,680 as compared to 2009. The decrease in cash and investments is due to spending to construct or acquire capital assets.
- General Fund expenditures were \$1,568,059 for the year ended December 31, 2010. 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. As the District grows, these costs will likely increase in future years.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$828,289, or 52.8% 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-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 3-6 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 29-31 of this report. A schedule of debt service requirements to maturity on the District’s 2008 Variable Rate Refunding and Improvement Revenue Bonds is included on page 31 and a five year summary of Centerra Metropolitan District No. 2’s assessed valuation, mill levy and property taxes collected is included on page 32.

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 \$64,659,215 at the close of the most recent fiscal year.

Net Assets

	December 31,	
	<u>2010</u>	<u>2009</u>
Current assets	\$ 21,155,983	\$ 27,596,513
Other assets	1,633,773	1,726,294
Capital assets	36,599,667	42,403,230
Total assets	<u>59,389,423</u>	<u>71,726,037</u>
Current liabilities	5,435,844	5,467,397
Long-term obligations	118,612,794	118,444,982
Total liabilities	<u>124,048,638</u>	<u>123,912,379</u>
Invested in capital assets, net of related debt	(20,544,071)	(24,184,346)
Restricted net assets	1,191,057	171,571
Unrestricted net assets	(45,306,201)	(28,173,569)
Total net assets	<u>\$ (64,659,215)</u>	<u>\$ (52,186,344)</u>

The District’s current assets decreased \$6,440,530 mainly due to decreases in cash and investments of \$6,366,680. The cash and investments were used mainly to construct or acquire capital assets.

Change in Net Assets

	December 31,	
	2010	2009
Revenue		
General revenue		
URA revenues	\$ 11,584,620	\$ 7,971,632
Net investment income and other income	268,516	112,452
Intergovernmental revenue - District No. 2 & 3	337,667	319,836
Cost sharing reimbursement	376,103	-
Program revenue		
Charges for services	83,772	3,814,994
Total revenues	12,650,678	12,218,914
Expenses		
General government	3,466,595	6,445,247
Dedication of capital assets to other governments	3,505,571	6,723,850
Interest and related costs on long-term debt	18,151,383	7,295,736
Total expenses	25,123,549	20,464,833
Change in net assets	(12,472,871)	(8,245,919)
Net assets - Beginning	(52,186,344)	(43,940,425)
Net assets - Ending	\$ (64,659,215)	\$ (52,186,344)

The District's main revenue sources for 2010 were revenues from the Loveland Urban Renewal Authority (LURA), cost sharing reimbursement, intergovernmental revenue and investment income. The majority of the expenses for general government were accounting, legal, landscape maintenance, Chapungu Park, utilities, tax abatement, waterline reimbursement, management and administration, for both administrative and capital functions, totaling \$1,789,114. The interest and related costs on long-term debt include interest, principal, letter of credit fees, swap payments, remarketing fees, paying agent fees, trustee fees and 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, 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 \$15,371,106. *Unreserved fund balance* constitutes \$828,889 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 \$50,600, and the unreserved fund balance of the General Fund was \$828,829 out of a total fund balance of \$878,889.

The Debt Service Fund has a total fund balance of \$9,413,039, all of which is restricted for repayments on debt service.

The Capital Projects Fund has a total fund balance of \$5,079,178, all of which is restricted for the construction of infrastructure.

General Fund Budgetary Highlights

During the year ended December 31, 2010, the District incurred actual expenditures of \$1,568,059 in the General Fund. The difference between actual and budgeted expenditures of \$1,781,811 was \$213,752. Notable savings were achieved in several expense categories, including savings of \$100,000 for contingency.

Capital Assets

The District invested \$3,962,999 in capital assets for its governmental activities for the period ended December 31, 2010. This investment in capital assets includes construction of streets, water, sewer, storm sewer, and park and recreation. 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 2010, \$3,505,571 in 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

On March 20, 2008, the District issued \$112,000,000 Variable Rate Refunding and Improvement Revenue Bonds (2008 Bonds) which were used to repay the 2004 Series Variable Rate Revenue Bonds on April 1, 2008 and provide additional funds for construction, bond issue costs, and increased debt service reserve.

At the end of the current fiscal year, the District had total outstanding bond indebtedness of \$110,920,000. The District's 2008 Bonds are due December 1, 2029 and pay a synthetically fixed interest rate of 3.5502% through maturity due to swap agreements in place at December 31, 2010. 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 \$11,868,447 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 \$280,757 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

In 2011, the District anticipates spending slightly less 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 2011 are \$1,333,769 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., 5110 Granite Street, Suite C, Loveland, CO 80538.

BASIC FINANCIAL STATEMENTS

CENTERRA METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET ASSETS
December 31, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 960,204
Cash and investments - Restricted	20,168,838
Service fees receivable	21,015
Other receivable	5,926
Deferred charges (net of accumulated amortization)	1,633,773
Capital assets not being depreciated	
Construction in progress	3,267,411
Water rights	3,423,082
Capital assets, net	<u>29,909,174</u>
Total assets	<u>59,389,423</u>
 LIABILITIES	
Accounts payable	2,877,908
Bond interest payable	349,033
Deferred URA revenue	2,557,936
Noncurrent liabilities	
Due within one year	2,022,662
Due in more than one year	<u>116,241,099</u>
Total liabilities	<u>124,048,638</u>
 NET ASSETS	
Invested in capital assets, net of related debt	(20,544,071)
Restricted for:	
Emergency reserves	50,600
Debt service	528
Capital projects	1,139,929
Unrestricted	<u>(45,306,201)</u>
Total net assets	<u><u>\$ (64,659,215)</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, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Expenses				Governmental Activities
\$ 3,466,595	\$ -	\$ -	\$ -	\$ (3,466,595)
3,505,571	-	-	-	\$ (3,505,571)
18,151,383	83,772	-	-	(18,067,611)
<u>\$ 25,123,549</u>	<u>\$ 83,772</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,039,777)</u>

Functions/Programs

Primary government:

Government activities:

- General government
- Dedication of capital assets to other government
- Interest related costs on long-term debt

General revenues:	
Net investment income and other income	268,516
Service fees - District No. 2 & 3	337,667
Cost reimbursement revenue	376,103
URA revenues	11,584,620
Total general revenues	<u>12,566,906</u>
Change in net assets	(12,472,871)
Net assets - Beginning	(52,186,344)
Net assets - Ending	<u>\$ (64,659,215)</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, 2010

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 856,037	\$ -	\$ -	\$ 856,037
Cash and investments - Restricted	50,600	13,189,274	6,928,964	20,168,838
Interest receivable	-	-	-	-
Rceivable - Service fees	20,984	31	-	21,015
Other receivable	5,926	-	-	5,926
TOTAL ASSETS	<u>\$ 933,547</u>	<u>\$ 13,189,305</u>	<u>\$ 6,928,964</u>	<u>\$ 21,051,816</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 158,725	\$ 866,423	\$ 1,849,786	\$ 2,874,934
Bond interest payable	-	349,033	-	349,033
Deferred URA revenue	-	2,557,836	-	2,557,836
Total liabilities	<u>158,725</u>	<u>3,773,292</u>	<u>1,849,786</u>	<u>5,781,803</u>
FUND BALANCES				
Reserved				
Emergency reserve	50,600	-	-	50,600
Debt Service	-	9,413,039	-	9,413,039
Capital projects	-	-	5,079,178	5,079,178
Unreserved, reported in:				
General fund	828,289	-	-	828,289
Total fund balances	<u>878,889</u>	<u>9,413,039</u>	<u>5,079,178</u>	<u>15,371,106</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,037,614</u>	<u>\$ 13,186,331</u>	<u>\$ 6,928,964</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.	
Capital assets, not being depreciated	6,690,493
Capital assets, net	29,909,174
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Bond issue costs, net	1,633,773
Long-term liabilities, including Developer advances and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Bond payable	(110,920,000)
Cost of refunding, net	5,184,535
Developer advance payable	(11,868,447)
Developer advance interest payable	(585,170)
Waterline reimbursement agreement note payable	(74,679)
Net assets of governmental activities	<u>\$ (64,659,215)</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, 2010

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Service fees - District 2 & 3	\$ 331,567	\$ 6,100	\$ -	\$ 337,667
Net investment and other income	13,285	247,835	7,396	268,516
Public improvement fees	-	83,772	-	83,772
Cost reimbursement revenue	-	-	376,103	376,103
URA revenues	1,339,650	7,744,970	2,500,000	11,584,620
Total Revenues	<u>1,684,502</u>	<u>8,082,677</u>	<u>2,883,499</u>	<u>12,650,678</u>
EXPENDITURES				
Current				
Accounting & Financial Management	149,536	-	-	149,536
Audit	7,300	-	-	7,300
Bond issue costs	-	39,565	-	39,565
Chapungu Park	170,827	-	-	170,827
Directors' fees	2,500	-	-	2,500
District Management	134,138	-	151,110	285,248
Engineering	7,741	-	-	7,741
Hardscape maintenance	69,536	-	-	69,536
Insurance and bonds	21,632	-	-	21,632
Landscape maintenance	360,678	-	-	360,678
Legal	490,024	-	-	490,024
Reimbursement per Waterline Agreement - Principal	-	-	105,947	105,947
Reimbursement per Waterline Agreement - Interest	-	-	10,838	10,838
Office expense/miscellaneous	3,963	1,255	-	5,218
Snow removal and sidewalk sweeping	3,704	-	-	3,704
Tax Abatement	81,497	-	-	81,497
Utiilities	64,983	-	-	64,983
Debt service				
Paying agent/trustee/banking fees	-	5,500	-	5,500
Bond principal	-	660,000	-	660,000
Interest expense - 2008 Bonds	-	4,344,634	-	4,344,634
Letter of credit fees - 2008 issue	-	1,866,027	-	1,866,027
Remarketing fees	-	149,507	-	149,507
LOC replacement	-	749,772	-	749,772
City of Loveland collection fees	-	83,772	-	83,772
Capital outlay	-	-	9,154,556	9,154,556
Total expenditures	<u>1,568,059</u>	<u>7,900,032</u>	<u>9,422,451</u>	<u>18,890,542</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>116,443</u>	<u>182,645</u>	<u>(6,538,952)</u>	<u>(6,239,864)</u>
OTHER FINANCING SOURCES (USES)				
Developer advance	-	-	76,371	76,371
Repayment of developer advance - Interest	-	-	(190,952)	(190,952)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(114,581)</u>	<u>(114,581)</u>
NET CHANGE IN FUND BALANCES	116,443	182,645	(6,653,533)	(6,354,445)
FUND BALANCES - BEGINNING OF YEAR	<u>762,446</u>	<u>9,230,394</u>	<u>11,732,711</u>	<u>21,725,551</u>
FUND BALANCES - END OF YEAR	<u>\$ 878,889</u>	<u>\$ 9,413,039</u>	<u>\$ 5,079,178</u>	<u>\$ 15,371,106</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, 2010**

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

Net change in fund balances - Total governmental funds \$ (6,354,445)

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	(551,821)
Dedication of infrastructure to other governments	(3,505,571)
Depreciation	(1,746,171)

The issuance of long-term debt (e.g., bonds, Developer 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 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.

Current year debt - Developer advance	(76,371)
Current year repayment of Developer advance - Interest	190,952
Current year repayment of Bonds - Principal	660,000
Current year amortization of bond issuance expenses	(132,086)
Current year amortization of cost of refunding	(429,558)
Current year reimbursement per waterline agreement - Principal	105,947
Current year bond issuance costs	39,565

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 Developer advance - Change in liability	(673,312)
---	-----------

Changes in net assets of governmental activities	\$ (12,472,871)
--	-----------------

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, 2010

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Service fees - District 2	\$ 367,127	\$ 311,733	\$ 331,219	\$ 19,486
Service fees - District 2	341	342	348	6
Net investment and other income	20,000	12,500	13,285	785
URA revenues (O&M)	956,801	1,172,650	1,339,650	167,000
Total Revenues	<u>1,344,269</u>	<u>1,497,225</u>	<u>1,684,502</u>	<u>187,277</u>
EXPENDITURES				
Accounting & financial consulting	160,160	160,160	149,536	10,624
Audit	7,300	7,300	7,300	-
Chapungu Park	198,729	181,658	170,827	10,831
Directors' fees	2,500	2,500	2,500	-
District management & admin	144,870	144,870	134,138	10,732
Engineering & other professional services	30,000	10,000	7,741	2,259
Hardscape maintenance	70,775	68,247	69,536	(1,289)
Insurance	28,000	21,457	21,632	(175)
Landscape maintenance and repairs	373,182	368,722	360,678	8,044
Legal	96,000	545,000	490,024	54,976
Office, dues & other	5,000	5,000	3,963	1,037
Snow removal and sidewalk sweeping	27,400	15,400	3,704	11,696
Thompson Valley EMS IGA Pmt	22,000	-	-	-
Tax abatement	-	81,497	81,497	-
Utilities	60,000	70,000	64,983	5,017
Contingency	97,353	100,000	-	100,000
Total expenditures	<u>1,323,269</u>	<u>1,781,811</u>	<u>1,568,059</u>	<u>213,752</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>21,000</u>	<u>(284,586)</u>	<u>116,443</u>	<u>401,029</u>
OTHER FINANCING SOURCES (USES)				
Transfer to other fund	<u>(266,625)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(266,625)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>(245,625)</u>	<u>(284,586)</u>	<u>116,443</u>	<u>401,029</u>
FUND BALANCES - BEGINNING OF YEAR	<u>612,154</u>	<u>762,446</u>	<u>762,446</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 366,529</u>	<u>\$ 477,860</u>	<u>\$ 878,889</u>	<u>\$ 401,029</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, 2010

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 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. 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, 2010

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. The difference between the assets and liabilities of the District is reported as net assets.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for 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, 2010

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 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.

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.

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 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.

During the year ended December 31, 2010, supplementary appropriations approved by the District's Board of Directors modified the appropriations from \$1,589,894 to \$1,781,811 in the General Fund, \$7,716,265 to \$8,203,421 in the Debt Service Fund and \$11,239,998 to \$12,569,164 in the Capital Projects Fund.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Investments are carried at fair value.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the 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 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 2010 were \$593.

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, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization

Bond Issue Costs

In the government-wide financial statements, bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the effective interest method.

In the fund financial statements, governmental fund types recognize bond issue 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 or capital projects 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. \$50,600 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 \$9,413,039 is to be used exclusively for future debt service payments.

The reserved fund balance in the Capital Projects Fund in the amount of \$5,079,178 represents bond proceeds and Developer advances for completion of capital projects.

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, 2010

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of December 31, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 960,204
Cash and investments - Restricted	20,168,838
Total cash and investments	<u>\$ 21,129,042</u>

Cash and investments as of December 31, 2010, consist of the following:

Deposits with financial institutions	\$ 16,305
Investments	21,112,737
Total cash and investments	<u>\$ 21,129,042</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, 2010, the District's cash deposits had a bank balance of \$61,293 that was either federally insured or collateralized by PDPA, and a carrying balance of \$16,305.

Investments

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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
- 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, 2010, the District had the following investments:

<u>Government Activities</u>		<u>Investment Maturity (in Years)</u>			
<u>Investment Type</u>	Standard and Poor's Rating	Less than 1	1-3	4-5	Total
Local Government Investment Pool	AAAm	\$ 11,699,348	\$ -	\$ -	\$ 11,699,348

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

During 2010, 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, 2010, the Centerra Metropolitan District No. 1 had \$11,699,348 invested in COLOTRUST PRIME.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2010, follows:

	<u>Balance at December 31, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2010</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 11,222,211	\$ 65,591	\$ 8,020,391	\$ 3,267,411
Water rights	3,423,082	-	-	3,423,082
Total capital assets, not being depreciated	<u>14,645,293</u>	<u>65,591</u>	<u>8,020,391</u>	<u>6,690,493</u>
Capital assets, being depreciated:				
Monumentation	4,550,218	-	-	4,550,218
Landscape improvements	5,460,159	3,266,474	-	8,726,633
Promenade shops	20,988,826	-	-	20,988,826
Sanitary sewer and storm drainage	-	118,843	-	118,843
Streets	101,838	512,091	-	613,929
Total capital assets, being depreciated	<u>31,101,041</u>	<u>3,897,408</u>	<u>-</u>	<u>34,998,449</u>
Less accumulated depreciation for:				
Monumentation	847,797	227,511	-	1,075,308
Landscape improvements	954,121	435,128	-	1,389,249
Promenade shops	1,540,337	1,049,441	-	2,589,778
Sanitary sewer and storm drainage	-	3,395	-	3,395
Streets	849	30,696	-	31,545
Total accumulated depreciation	<u>3,343,104</u>	<u>1,746,171</u>	<u>-</u>	<u>5,089,275</u>
Total capital assets, being depreciated, net	<u>27,757,937</u>	<u>2,151,237</u>	<u>-</u>	<u>29,909,174</u>
Governmental activities capital assets, net	<u>\$ 42,403,230</u>	<u>\$ 2,216,828</u>	<u>\$ 8,020,391</u>	<u>\$ 36,599,667</u>

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

Governmental Activities:	
General government	\$ 1,746,171
Total depreciation expense - Governmental activities	<u>\$ 1,746,171</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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, 2010.

	Balance at December 31, 2009	Additions	Reductions	Balance at December 31, 2010	Due Within One Year
Variable rate revenue and refunding bonds					
2008 Bonds	\$ 111,580,000	\$ -	\$ (660,000)	\$ 110,920,000	\$ 2,375,000
Cost on bond refunding	(5,614,093)	-	429,558	(5,184,535)	(427,017)
Developer advances	11,792,076	76,371	-	11,868,447	-
Interest on Developer advances	102,809	368,900	(190,952)	280,757	-
Waterline reimbursement agreement note payable	180,626	-	(105,947)	74,679	74,679
	<u>\$ 118,041,418</u>	<u>\$ 445,271</u>	<u>\$ (527,341)</u>	<u>\$ 117,959,348</u>	<u>\$ 2,022,662</u>

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

Variable Rate Refunding and Improvement Revenue Bonds, Series 2008 (2008 Bonds) dated March 14, 2008 were issued on March 20, 2008, in the original amount of \$112,000,000 for the purpose of: (i) refunding the District's outstanding Variable Rate Revenue Bonds, Series 2004, including payment of a termination payment due in connection with an interest rate exchange agreement related thereto; (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; (iii) funding a Debt Service Reserve Account (which, while the Letter of Credit is in effect, is pledged to the Bank and not to the Series 2008 Bonds); and (iv) paying certain costs related to the issuance of the Series 2008 Bonds. The 2008 Bonds are term bonds due on December 1, 2029, with mandatory redemption principal payments starting at \$420,000 on December 1, 2009, and increasing annually thereafter. Principal payments of \$660,000 were paid in 2010.

The bonds are subject to redemption prior to maturity at the option of the District at certain dates depending upon the interest rate mode. The bonds are currently remarketed in the weekly mode. Interest is payable on the first business day of each calendar month. The District may effect a change in mode to a daily, monthly, semi-annual, annual, flexed pricing or fixed rate mode by giving proper notice in accordance with the provisions in the Indenture.

**CENTERRA METROPOLITAN DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010**

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

The bonds are secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: (1) Tax Increment Financing (TIF) Revenues 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 bonds are also secured by amounts held by the Trustee 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 of actual value to assessed value of property within the District. As of December 31, 2010, the adjusted maximum mill levy is 72 mills and the adjusted minimum mill levy is 35 mills. For collection year 2010, the District levied 42.6 mills with respect to District No. 2 and 6.655 mills for District No. 2 debt only portion of District No. 2.

Letter of Credit

Concurrently with the issuance of the 2008 Bonds, the District established an irrevocable direct pay Letter of Credit with Compass Bank in the amount of \$112,000,000. Due to market conditions, Compass Bank was replaced by US Bank as the Letter of Credit provider on September 1, 2010. The Letter of Credit expires March 20, 2013, unless extended and subject to certain acts of default as defined in the Indenture and the Reimbursement Agreement. Letter of Credit facility fees are paid quarterly at an annual rate of up to 1.50% per annum on the daily average undrawn Stated Amount of the Letter of Credit. The Facility Fee Rate is currently 1.50% 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%

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) 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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

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 Bank 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 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 Residential Tax Revenue Account, and third, from the PIF Bond Account.

- i) Payment of Fees due to the Custodian and payment of LOC Facility Fees.
- ii) Payments on debt service on the 2008 Bonds, and then payments on the swap agreement with Royal Bank of Canada (RBC) (see Note 8).
- iii) Payments to replenish the Debt Service Reserve Funds to the extent that the Debt Service Fund Requirement is not being met. The Debt Service Reserve Fund Requirement is \$9,411,000.
- 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.

Collateral Revenue 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 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 Bond Account of the Revenue Bond Fund, to fund any insufficiencies of the Revenue Bond Fund as outlined above.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

- iii) To the Letter of Credit Bank from any Collateral Revenue Fund for amounts remaining due under the Reimbursement Agreement.
- iv) 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.
- v) 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 Revenue Bond Fund, without prior written consent of the majority bank.

The District entered into a swap agreement with Royal Bank of Canada during 2008 for the purpose of creating a synthetic fixed interest rate on their 2008 Bonds of 3.5502% per annum (see Note 8).

The District's long-term obligations, using a synthetic fixed interest rate of 3.5502% will mature as follows:

The District's long-term obligations will mature as follows:

	Governmental Activities		
	Principal	Interest	Total
2011	\$ 2,375,000	\$ 3,937,883	\$ 6,312,883
2012	3,090,000	3,853,566	6,943,566
2013	3,310,000	3,743,865	7,053,865
2014-2018	21,380,000	16,721,094	38,101,094
2019-2023	28,825,000	12,404,939	41,229,939
2024-2028	38,185,000	6,661,243	44,846,243
2029	13,755,000	488,330	14,243,330
	<u>\$ 110,920,000</u>	<u>\$ 47,810,920</u>	<u>\$ 158,730,920</u>

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Refunding

On March 20, 2008, the District advance refunded and defeased (debt legally satisfied) \$57,000,000 of Variable Rate Revenue Bonds dated October 15, 2004, with an average interest rate of 4.25% by the issuance of \$112,000,000 Variable Rate Refunding and Improvement Revenue Bonds dated March 14, 2008, with an average interest rate of 3.5502%. The District advance refunded the 2004 Series bonds to reduce its interest rate over the next 21 years. There was an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$(1,756,262). Restrictions on the monies restricted for interest payments and the reserve account pertaining to the defeased bonds were removed under the new refunding. The defeased bonds are not considered a liability of the District since sufficient funds in the amount of \$57,131,489 were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds until the call date, April 1, 2008, at which point the bonds were repaid in their entirety from the remaining funds in the escrow account. As of December 31, 2010, the outstanding principal balance of the bonds is \$-0-.

In the government-wide statements, the District incurred a cost on bond refunding in the amount of \$6,345,893, which has been deferred and is being amortized over the life of the new debt.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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, 2010, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized May 4, 2004	Authorization Used Series 2004 Bonds	Authorization Used Series 2008 Bonds	Authorized But Unissued
Street improvement	\$ 350,000,000	\$ 28,226,400	\$ 24,426,816	\$ 297,346,784
Traffic and safety controls	350,000,000	1,185,600	2,149,711	346,664,689
Water supply system	350,000,000	1,026,000	7,533,504	341,440,496
Sanitary sewer and storm drainage	350,000,000	12,369,000	13,449,969	324,181,031
Parks and recreation	350,000,000	14,067,600		335,932,400
Public transportation	350,000,000	125,400		349,874,600
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		64,440,000	635,560,000
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>\$ 57,000,000</u>	<u>\$ 112,000,000</u>	<u>\$ 5,181,000,000</u>

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

The District anticipates receiving a direct loan in the amount of \$20,000,000 in the year ending December 31, 2011, as set forth in the budget for the year ending December 31, 2011.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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 reduce 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, 2010, the District had invested in capital assets, net of related debt calculated as follows:

	Governmental Activities
Invested in capital assets, net of related debt:	
Capital assets, net	\$ 29,909,174
Unspent bond proceeds	6,561,982
Bond issuance costs (net of accumulated amortization)	783,504
Current and noncurrent portion of long-term obligations - Bonds	(54,513,793)
Cost of refunding, net of accumulated amortization	2,548,041
Noncurrent portion of long-term obligations - Developer advances	(5,832,979)
Invested in capital asset, net of related debt	\$ (20,544,071)

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, 2010 as follows:

	Governmental Activities
Restricted net assets:	
Emergencies (see Note 2)	\$ 50,600
Debt service	528
Capital projects	1,139,929
Total restricted net assets	\$ 1,191,057

The District's unrestricted net assets as of December 31, 2010 totaled \$(45,306,201). 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 conveyed to other governmental entities and which costs were removed from the District's financial records.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 7 – RELATED PARTY

The Developers of the property which constitutes the District are McWhinney; Centerra Residential, LLC; Centerra Properties West, LLC (CPW); 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 \$4,108,010, and SMP4 \$1,373,828 as of December 31, 2010 for a total of \$5,481,838 in principal outstanding for related party 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 recording of the PIF Covenant against all of the property within the Commercial District to provide for the imposition of a Public Improvement Fee. In connection with the PIF the City agrees in the MFA to grant a credit against the collection of 1.25% of its 3.0% sales tax on taxable sales transactions occurring within the Commercial District. The MFA also provides for the payment to the District by the Residential District of 5.000 mills against the property in the Residential District (referred to as the Residential Contribution). The MFA authorizes the District to provide for the construction or acquisition of certain public improvements.

Funding and Reimbursement Agreement (Capital Costs)

On January 15, 2011, the District entered into that certain Second Amended and Restated Advance and Reimbursement Agreement with SMP4 Investments, Inc., (“SMP4”), which refunded and consolidated all prior agreements and authorized the issuance of two subordinate promissory notes to the Developer in a principal amount not to exceed \$1,500,000 and \$58,193 for Note 1 and Note 2, respectively. Note 1 bears interest at the rate of two percent plus the Federal Reserve Bank Prime Rate, simple interest. Note 2 bears interest at the rate of two percent plus the Federal Reserve Bank Prime Rate, or six percent, whichever is greater, such interest to compound annually. The promissory notes expire on January 15, 2051.

On January 1, 2010, the District entered into that certain Third Amended and Restated Advance and Reimbursement Agreement with Centerra Properties West, LLC, (“CPW”), which refunded and consolidated all prior agreements and authorized the issuance of subordinate promissory notes to CPW in a principal amount not to exceed \$4,000,000 and to the RSF in a principal amount not to exceed \$6,386,609. The notes bear interest at a rate of two percent plus the

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 – AGREEMENTS (CONTINUED)

Federal Reserve Bank Prime Rate, simple interest. The promissory notes expire on January 1, 2050.

On May 1, 2009, the District entered into that certain 2009 Advance and Reimbursement Agreement with Centerra Properties West, LLC (“CPW”), pursuant to which CPW agreed to advance funds to the District to fund costs associated with the District’s construction of certain specific public improvements as specified therein. The District issued a subordinate note to CPW dated May 1, 2009, with a maturity date of December 31, 2009, to evidence the District’s repayment obligation. The May 1, 2009 subordinate note was refunded with a subordinate note dated January 1, 2010, with a maturity date of December 31, 2010. The January 1, 2010 subordinate note was refunded with a subordinate note dated January 1, 2011, in the principal amount not to exceed \$750,000, with a maturity date of December 31, 2011. The January 1, 2011 subordinate note bears interest at the rate of two percent plus the Federal Reserve Bank Prime Rate, or six percent, whichever is greater, such interest to compound annually.

On February 17, 2011, the District entered into that certain 2011 Advance and Reimbursement Agreement with Centerra Properties West, LLC (“CPW”), pursuant to which CPW agreed to advance funds, in an amount not to exceed \$1,200,000, to the District to fund costs associated with the District’s construction of certain specific public improvements as specified therein. The District issued a subordinate note to CPW dated February 17, 2011 in the principal amount not to exceed \$1,200,000, with a maturity date of December 31, 2011. The subordinate note bears interest at the rate of two percent plus the Federal Reserve Bank Prime Rate, or six percent, whichever is greater, such interest to compound annually.

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 (based on initial cost estimates) which was \$31,269 more than the required payment of \$137,731, including interest. This overpayment was subtracted from the balance due. In 2010, the District made the fourth required payment to the city in the amount of \$116,785 consisting of \$105,947 principal and \$10,838 interest. The balance due at December 31, 2010 is \$74,679 (see Note 5).

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 – AGREEMENTS (CONTINUED)

Interest Rate Swaps

On August 11, 2005, the District entered into a swap agreement with RBC for the notional amount of \$57,000,000 (referred to as the 2005 swap). On March 20, 2008, the District terminated the 2005 swap. On March 20, 2008, the District entered into a new swap agreement with RBC for the notional amount of \$112,000,000 (referred to as the 2008 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 March 2008, the District has entered into an interest rate swap in connection with its \$112 million Series 2008 Variable Rate Refunding and Improvement Revenue Bonds. The intention of the swap is to effectively change the District's variable interest rate on the 2008 Bonds to a synthetic fixed rate of 3.5502% through the life of the 2008 Bonds.

Terms. The 2008 Bonds mature on December 1, 2029, and the 2008 swap matures on December 1, 2029. The principal amount of the 2008 Bonds of \$110.92 million matches the notional amount of the 2008 swap. Under the swap, the District pays the counterparty a fixed payment of 3.5502% through December 1, 2029, and receives a variable payment based on the Securities Industry and Financial Markets Association Swap Index (SIFMA). The 2008 Bonds' variable rate coupons are also based on the SIFMA.

Fair Value. As of December 31, 2010, the fair market value and change in fair market value are as follows:

	<u>Changes in Fair Value</u>		<u>Fair Value at December 31, 2010</u>	
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>
Governmental activities				
Cash flow hedge:				
Pay-fixed interest rate swap	Deferred outflow	\$ (1,796,459)	Debt	\$ (5,732,179)

Credit Risk. As of December 31, 2010, 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 2008 swap counterparty was rated Aa1/AA-/AA from Moody's, Standard & Poor's and Fitch, respectively, as of December 31, 2010.

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

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 – AGREEMENTS (CONTINUED)

Basis Risk. The District has managed its basis risk by choosing to receive their variable rate payments from RBC based on the SIFMA, which will closely approximate the variable rate interest payments due on the 2008 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.

Rollover Risk. The 2008 bonds are currently structured to mature at the same time as the swap, so no rollover risk currently exists.

Foreign Currency Risk. The swap is denominated in US Dollars and therefore the District is not exposed to foreign currency risk.

Centerra Public Improvement Collection Corporation Reimbursement Agreement

On April 13, 2009, the District entered into that certain Reimbursement Agreement (the "Agreement") with the Centerra Public Improvement Collection Corporation (the "PIC"), pursuant to which the PIC advanced to the District \$1,145,000, which the District applied to the costs of the Crossroads Interchange Interim Improvements. Pursuant to the Agreement, the District is required to repay the advanced funds not later than January 20, 2029; provided, however, that the District's obligation to repay the PIC is contingent upon: 1. The Crossroads Interchange Interim Improvements being included within the US 34/Crossroads Corridor Renewal Plan, and 2. The District having funds available to make repayment to the PIC. The Agreement is a multiple fiscal year obligation of the District, and the repayment of funds to the PIC does not accrue any interest.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of December 31, 2010, the District had unexpended construction commitments of approximately \$2,481,661.

CENTERRA METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2010. 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 11 – TAX, SPENDING AND DEBT LIMITATIONS

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding 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.

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, 2010

	<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				
Service Fees, District no. 2	\$ 5,713	\$ 6,050	\$ 6,100	\$ 50
Net investment and other income	49,620	260,000	247,835	(12,165)
URA revenues (Debt Service)	8,957,420	8,741,571	7,744,970	(996,601)
PIF Revenues	83,772	83,772	83,772	-
Total revenues	<u>9,096,525</u>	<u>9,091,393</u>	<u>8,082,677</u>	<u>(1,008,716)</u>
EXPENDITURES				
Debt service				
Paying agent/trustee/banking fees	14,000	14,000	5,500	8,500
Bond principal - 2008 Bonds	660,000	660,000	660,000	-
Interest expense - 2008 Bonds	3,961,314	4,398,470	4,344,634	53,836
Letter of credit fees - 2008 Bonds	1,852,179	1,852,179	1,866,027	(13,848)
Remarketing and rating fees	145,000	145,000	149,507	(4,507)
City of Loveland collection fees	83,772	83,772	83,772	-
LOC replacement	-	800,000	749,772	50,228
Bond issue costs	-	-	39,565	(39,565)
Miscellaneous	-	-	1,255	(1,255)
Contingency	1,000,000	250,000	-	250,000
Total expenditures	<u>7,716,265</u>	<u>8,203,421</u>	<u>7,900,032</u>	<u>303,389</u>
EXCESS OF REVENUES				
OVER (UNDER) EXPENDITURES				
	<u>1,380,260</u>	<u>887,972</u>	<u>182,645</u>	<u>(705,327)</u>
FUND BALANCES - BEGINNING OF YEAR				
	<u>9,923,954</u>	<u>9,230,394</u>	<u>9,230,394</u>	<u>-</u>
FUND BALANCES - END OF YEAR				
	<u>\$ 11,304,214</u>	<u>\$ 10,118,366</u>	<u>\$ 9,413,039</u>	<u>\$ 705,327</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, 2010

	<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	\$ 54,594	\$ 10,000	\$ 7,396	\$ (2,604)
Cost sharing reimbursement	-	376,103	376,103	-
URA revenues	-	2,500,000	2,500,000	-
Total revenues	<u>54,594</u>	<u>2,886,103</u>	<u>2,883,499</u>	<u>(2,604)</u>
EXPENDITURES				
Current				
District Management	-	7,000	3,198	3,802
Project Management	147,912	147,912	147,912	-
Engineering & Other professional svcs	149,840	20,000	-	20,000
Reimbursement per Waterline Agreement - Principal	105,947	105,947	105,947	-
Reimbursement per Waterline Agreement - Interest	10,838	10,838	10,838	-
Warranty costs	-	600	593	7
Capital outlay				
Water	-	40,800	40,800	-
Streets	9,598,000	9,495,115	9,050,682	444,433
Park and recreation	-	50,000	48,160	1,840
Sewer and storm sewer	-	-	14,321	(14,321)
Contingency	1,227,461	-	-	-
Total expenditures	<u>11,239,998</u>	<u>9,878,212</u>	<u>9,422,451</u>	<u>455,761</u>
EXCESS OF REVENUES				
OVER (UNDER) EXPENDITURES				
	<u>(11,185,404)</u>	<u>(6,992,109)</u>	<u>(6,538,952)</u>	<u>453,157</u>
OTHER FINANCING SOURCES (USES)				
Bond issuance	-	-	-	-
Transfer from other fund	266,625	-	-	-
Developer advance	-	40,975	40,975	-
Proceeds from Developer note	-	35,396	35,396	-
Repay Developer advance	-	(2,500,000)	-	2,500,000
Repay Developer advance - Interest	-	(190,952)	(190,952)	-
Total other financing sources (uses)	<u>266,625</u>	<u>(2,614,581)</u>	<u>(114,581)</u>	<u>2,500,000</u>
EXCESS OF REVENUES AND OTHER				
FINANCING SOURCES OVER (UNDER)				
EXPENDITURES AND OTHER USES				
	<u>(10,918,779)</u>	<u>(9,606,690)</u>	<u>(6,653,533)</u>	<u>2,953,157</u>
FUND BALANCES - BEGINNING OF YEAR				
	<u>10,918,779</u>	<u>11,732,711</u>	<u>11,732,711</u>	<u>-</u>
FUND BALANCES - END OF YEAR				
	<u>\$ -</u>	<u>\$ 2,126,021</u>	<u>\$ 5,079,178</u>	<u>\$ 2,953,157</u>

See the accompanying independent certified public accountants report.

CENTERRA METROPOLITAN DISTRICT NO. 1
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2010

\$112,000,000 Variable Rate Refunding and Improvement Bonds

Series 2008

Dated March 19, 2008

Principal due December 1

Variable Interest Rate (Weekly Mode)

Paid 1st Business Day of Subsequent Month

Year Ended December 31,	Principal	Interest *	Annual Debt Service	LOC Fees**	Remarketing Fees***	Annual Debt Service w/ Fees
2011	2,375,000	3,937,883	6,312,883	1,679,602	138,403	8,130,888
2012	3,090,000	3,853,566	6,943,566	1,101,306	135,359	8,180,231
2013	3,310,000	3,743,865	7,053,865	1,069,788	131,474	8,255,127
2014	3,675,000	3,626,353	7,301,353	1,035,917	127,298	8,464,568
2015	3,925,000	3,495,883	7,420,883	998,442	122,679	8,542,004
2016	4,335,000	3,356,538	7,691,538	958,297	117,730	8,767,565
2017	4,590,000	3,202,637	7,792,637	914,126	112,284	8,819,047
2018	4,855,000	3,039,683	7,894,683	1,080,400	106,519	9,081,602
2019	5,135,000	2,867,321	8,002,321	1,018,739	100,421	9,121,481
2020	5,430,000	2,685,018	8,115,018	953,523	93,972	9,162,513
2021	5,750,000	2,492,242	8,242,242	884,552	87,151	9,213,945
2022	6,080,000	2,288,105	8,368,105	811,526	79,929	9,259,560
2023	6,430,000	2,072,253	8,502,253	734,308	72,293	9,308,854
2024	6,800,000	1,843,975	8,643,975	652,645	64,217	9,360,837
2025	7,195,000	1,602,561	8,797,561	566,279	55,676	9,419,516
2026	7,615,000	1,347,124	8,962,124	474,893	46,638	9,483,655
2027	8,055,000	1,076,776	9,131,776	378,178	37,073	9,547,027
2028	8,520,000	790,807	9,310,807	275,876	26,956	9,613,639
2029	13,755,000	488,330	14,243,330	162,396	15,761	14,421,487
	<u>\$ 110,920,000</u>	<u>\$ 47,810,920</u>	<u>\$ 158,730,920</u>	<u>\$ 15,750,793</u>	<u>\$ 1,671,833</u>	<u>\$ 176,153,546</u>

* Estimated average weekly rate for March 19, 2008 through maturity:

3.5502%

** LOC Fees line item above includes the Facility Fee, Fronting Fee, and Payment Fee.

Facility Fees are charged as a percentage of a Stated Amount, and are paid quarterly. The Stated Amount is based on outstanding principal and a portion (34/365) of an additional interest calculation at 12% of the outstanding principal. The Fees start at 1.5% and continue at that rate thru December 31, 2009. After December 31, 2009, the fee will be based on the debt service coverage ratios listed below. This schedule assumes that the Debt Service Coverage Ratio will be 1.76 or greater to 1 in the years 2010-2017 and 1.70-1.75 to 1 in the years 2018-2029.

<u>Debt Service Coverage Ratio</u>	<u>Facility Fee Rate</u>
1.76 or greater to 1	1.00%
1.51 to 1.75 to 1	1.25%
1.50 or less to 1	1.50%

Fronting Fees are charged as a percentage of outstanding principal every quarter, rate of:

0.150%

Payment Fee is a fee of \$250 for each monthly bond payment to the LOC provider

***Remarketing fees are charged every June and December 1, based on the monthly outstanding principal during that six month period

Remarketing fee rate: 0.125%

**CENTERRA METROPOLITAN DISTRICT NO. 1
 FIVE YEAR SUMMARY OF CENTERRA METROPOLITAN DISTRICT NO.2'S
 ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED
 December 31, 2010**

Year Ended December 31,	Prior Year		Prior Year		Mills		Mills		Total		Percent Collected to Levied
	Assessed Valuation for Current Year	Property Tax Levy General Fund	Assessed Valuation for Current Year	Property Tax Levy Debt Service Fund	Levied for Contractual	Obligation General Fund	Levied for Contractual	Obligation Debt Service Fund	Levied	Collected	
2006	\$ 374,750	\$	\$ -	\$	35.000	0.000	0.000	\$	13,116	\$ 10,121	77.2%
2007	\$ 398,960	\$	\$ -	\$	35.000	0.000	0.000	\$	13,964	\$ 13,963	100.0%
2008	\$ 422,861	\$	\$ -	\$	52.600	0.000	0.000	\$	22,242	\$ 22,068	99.2%
2009	\$ 1,127,183	\$	\$ 1,028,350	\$	42.600	6.655	6.655	\$	54,862	\$ 54,559	99.4%
2010	\$ 1,138,344	\$	\$ 876,010	\$	42.600	6.655	6.655	\$	54,323	\$ 71,333	131.3%

Estimated for
 calendar year ending
 December 31,
 2010

\$ 1,150,665 \$ 763,570 42.600 6.655 \$ 54,100

Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years.