

**THE LAKES AT CENTERRA METROPOLITAN  
DISTRICT NO. 1**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2018**

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## **FINANCIAL SECTION**



# JOHN CUTLER & ASSOCIATES

Board of Directors  
The Lakes at Centerra Metropolitan District No. 1  
Loveland, 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 Lakes at Centerra Metropolitan District No. 1, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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's 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 evaluating 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 Lakes at Centerra Metropolitan District No. 1, as of December 31, 2018, 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 budgetary comparison information on page 21 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.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund schedule 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 individual fund schedules are fairly stated in all material respects in relation to the financial statements as a whole.

*John Cutler & Associates, LLC*

July 26, 2019

## **BASIC FINANCIAL STATEMENTS**

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

As of December 31, 2018

	Governmental Activities	
	2018	2017
<b>ASSETS</b>		
Cash and Investments	\$ 267,291	\$ 102,522
Accounts Receivable	1,265	1,782
Due from Other Government	-	9,250
Developer Advances Receivable	989,918	455,908
Construction Deposit	123,680	106,004
Prepaid Expenses	5,888	9,574
Capital Assets, not depreciated	1,473,729	1,473,729
Capital Assets, depreciated, net	9,568,226	3,167,996
<b>TOTAL ASSETS</b>	<b>12,429,997</b>	<b>5,326,765</b>
<b>LIABILITIES</b>		
Accounts Payable	771,767	372,542
Due to Other Government	3,818	-
Retainage Payable	266,871	67,099
Accrued Interest	141,044	727,260
Noncurrent Liabilities		
Due within One Year	3,173,158	12,441,120
Due in More Than One Year	-	-
<b>TOTAL LIABILITIES</b>	<b>4,356,658</b>	<b>13,608,021</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	7,868,797	(7,799,395)
Restricted for Emergencies	5,900	8,175
Unrestricted	198,642	(490,036)
<b>TOTAL NET POSITION</b>	<b>\$ 8,073,339</b>	<b>\$ (8,281,256)</b>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2018

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position	
		Capital Grants and Contributions	Charges for Services	Governmental Activities	
				2018	2017
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
General Government	\$ 447,028	\$ -	\$ 193,408	\$ (253,620)	\$ (1,777)
Interest on Long-Term Debt	204,171	-	-	(204,171)	(891,517)
Total Governmental Activities	<u>\$ 651,199</u>	<u>\$ -</u>	<u>\$ 193,408</u>	(457,791)	(893,294)
<b>GENERAL REVENUES</b>					
Interest				4,259	939
Other				-	100,000
Special Item					
Transfer from District No. 2				16,808,127	7,480,210
Capital Asset Transfer to Other Government				-	(18,307,974)
TOTAL GENERAL REVENUES				<u>16,812,386</u>	<u>(10,726,825)</u>
CHANGE IN NET POSITION				16,354,595	(11,620,119)
NET POSITION, Beginning				<u>(8,281,256)</u>	<u>3,338,863</u>
NET POSITION, Ending				<u>\$ 8,073,339</u>	<u>\$ (8,281,256)</u>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of December 31, 2018

	GENERAL FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS	
			2018	2017
<b>ASSETS</b>				
Cash and Investments	\$ 110,170	\$ 157,121	\$ 267,291	\$ 102,522
Accounts Receivable	1,265	-	1,265	1,782
Due from Other Government	-	-	-	9,250
Developer Advance Receivable	-	989,918	989,918	455,908
Construction Deposit	-	123,680	123,680	106,004
Prepaid Expenses	5,888	-	5,888	9,574
<b>TOTAL ASSETS</b>	<b>\$ 117,323</b>	<b>\$ 1,270,719</b>	<b>\$ 1,388,042</b>	<b>\$ 685,040</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 42,202	\$ 729,565	\$ 771,767	\$ 372,542
Due to Other Government	3,818	-	3,818	-
Retainage Payable	-	266,871	266,871	67,099
<b>TOTAL LIABILITIES</b>	<b>46,020</b>	<b>996,436</b>	<b>1,042,456</b>	<b>439,641</b>
<b>FUND EQUITY</b>				
Fund Balance				
Nonspendable	5,888	123,680	129,568	115,578
Restricted for Emergencies	5,900	-	5,900	8,175
Committed for Capital Projects	-	150,603	150,603	73,615
Unassigned	59,515	-	59,515	48,031
<b>TOTAL FUND EQUITY</b>	<b>71,303</b>	<b>274,283</b>	<b>345,586</b>	<b>245,399</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 117,323</b>	<b>\$ 1,270,719</b>		

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 in the funds.	11,041,955	4,641,725
Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include developer advances (\$3,173,158) and accrued interest payable (\$141,044).	(3,314,202)	(13,168,380)
<b>Net Position of governmental activities</b>	<b>\$ 8,073,339</b>	<b>\$ (8,281,256)</b>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended December 31, 2018

	GENERAL FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS	
			2018	2017
REVENUES				
Service Fees	\$ 193,408	\$ -	\$ 193,408	\$ 271,533
Intergovernmental	-	-	-	3,417
Other	-	-	-	100,000
Interest	4,259	-	4,259	939
<b>TOTAL REVENUES</b>	<b>197,667</b>	<b>-</b>	<b>197,667</b>	<b>375,889</b>
EXPENDITURES				
Current				
General Government	192,144	43,187	235,331	265,889
Developer Advance Repayments	-	12,895,741	12,895,741	10,654,480
Capital Outlay	-	6,611,927	6,611,927	2,443,204
<b>TOTAL EXPENDITURES</b>	<b>192,144</b>	<b>19,550,855</b>	<b>19,742,999</b>	<b>13,363,573</b>
EXCESS OF REVENUES (UNDER) EXPENSES	5,523	(19,550,855)	(19,545,332)	(12,987,684)
OTHER FINANCING SOURCES				
Proceeds from Developer Advances	-	2,837,392	2,837,392	2,416,581
Transfer from District No. 2	-	16,808,127	16,808,127	7,480,210
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>19,645,519</b>	<b>19,645,519</b>	<b>9,896,791</b>
NET CHANGE IN FUND BALANCES	5,523	94,664	100,187	(3,090,893)
FUND BALANCES, Beginning	65,780	179,619	245,399	3,336,292
FUND BALANCES, Ending	\$ 71,303	\$ 274,283	\$ 345,586	\$ 245,399

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2018

Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds	\$ 100,187
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$6,419,420 exceeded depreciation (\$19,190) for the period.	6,400,230
Debt proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide financial statements, however, issuing debt increases long-term liabilities in the statement of net position and does not effect the statement of activities. This amount represents developer advances.	(2,837,392)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount includes principal payments \$12,895,741 and change in accrued interest payable (\$204,171) for the period.	<u>12,691,570</u>
Change in Net Position of Governmental Activities	<u><u>\$ 16,354,595</u></u>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Lakes at Centerra Metropolitan District No. 1 (the “District”) was formed to provide public services and improvements within its boundaries. The District is governed by a five-member Board of Directors (the “Board”) elected by the constituents.

The accounting policies of the District conform to generally accepted accounting principles (“GAAP”) as applicable to governments. The following is a summary of the more significant policies:

**Reporting Entity**

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if the District officials appoint a voting majority of the organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of the 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*.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Government-Wide and Fund Financial Statements** (Continued)

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Service fees, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

In the fund financial statements, 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 District, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for the construction of public infrastructure and other capital improvements within the District.

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Cash and Investments**

Cash equivalents include investments with original maturities of three months or less.

Investments are recorded at fair value.

**Capital Assets**

Capital assets, which include property and equipment, are reported in the governmental activities column 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 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Property and equipment of the District is depreciated using the straight-line method over the estimated useful lives between fifteen and thirty years.

**Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type Statement of Net Position.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Net Position**

The government-wide financial statements utilize a net position presentation. Net position components are investment in capital assets, restricted, or unrestricted.

*Net Investment in Capital Assets* includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position* includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

*Unrestricted Net Position* typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

**Net Position/Fund Balance Classification**

In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed.

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as deposits and prepaid amounts) or are legally or contractually required to be maintained intact. The District has classified prepaid expenses and deposits as nonspendable at December 31, 2018.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The use of the Emergency Reserves is restricted by State Statute for declared emergencies.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Net Position/Fund Balance Classification** (Continued)

- **Committed** – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District has committed the resources of the Capital Projects Fund for future capital outlay and payment of debt.
- **Unassigned** – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically first spend restricted fund balances, followed by committed resources, and then assigned resources, as appropriate opportunities arise. The District reserves the right to selectively spend the Unassigned balance.

**Property Taxes**

Property taxes are levied on November 1 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

Property taxes are assessed and submitted to The Lakes at Centerra Metropolitan District Nos. 2 and 3 and forwarded to the District as a payment for administrative and other services. These payments are labeled as charges for services in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15th, District Management submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain public comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board at a public hearing.
- Budgets are legally adopted for all funds of the District on a basis consistent with GAAP.
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board. All appropriations lapse at year end.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 3: CASH AND INVESTMENTS**

A summary of deposits and investments as of December 31, 2018 follows:

Deposits	\$ 163,881
Investments	<u>103,410</u>
Total	<u>\$ 267,291</u>

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 regulations. At December 31, 2018, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

At December 31, 2018, the District had deposits with financial institutions with a carrying amount of \$163,881. The bank balances with the financial institutions were \$176,456. All of these balances were covered by federal depository insurance.

**Investments**

Interest Rate Risk

The District adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments must be consistent with the non-cash requirements of the District, except for liquid investments where the average duration may not exceed two years and the maximum duration may not exceed 5 years.

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 3: CASH AND INVESTMENTS** (Continued)

**Investments** (Continued)

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

The above investments are authorized for all funds and fund types used by Colorado municipalities.

The District had invested \$103,410 in the Colorado Local Government Liquid Asset Trust (COLOTRUST); which has a credit rating of AAAM by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 4: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2018, is summarized below:

	<u>Balances</u> <u>12/31/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/18</u>
<b>Governmental Activities</b>				
Capital Assets, not depreciated				
Construction in Progress	\$ 1,473,729	\$ -	\$ -	\$ 1,473,729
Capital Assets, depreciated				
Infrastructure	3,178,834	6,419,420	-	9,598,254
Less Accumulated Depreciation				
Infrastructure	10,838	19,190	-	30,028
Total Capital Assets, depreciated, net	3,167,996	6,400,230	-	9,568,226
Governmental Activities, Capital Assets, net	<u>\$ 4,641,725</u>	<u>\$ 6,400,230</u>	<u>\$ -</u>	<u>\$ 11,041,955</u>

Depreciation is charged to the general government program of the District.

During the year ended December 31, 2017, the District dedicated constructed infrastructure assets in the amount of \$18,307,974 to the City of Loveland. This transaction has been recorded as a special item in the District's government-wide statement of activities.

**NOTE 5: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2018:

	<u>Balance</u> <u>12/31/17</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/18</u>	<u>Due In</u> <u>One Year</u>
Developer Advances					
- Operating	\$ 422,319	\$ -	\$ -	\$ 422,319	\$ 422,319
Developer Advances					
- Capital	12,018,801	2,837,816	12,105,778	2,750,839	2,750,839
<b>Total</b>	<u>\$ 12,441,120</u>	<u>\$ 2,837,816</u>	<u>\$ 12,105,778</u>	<u>\$ 3,173,158</u>	<u>\$ 3,173,158</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**NOTE 5: LONG-TERM DEBT** (Continued)

**Developer Advances – Operating**

On January 1, 2018, the District issued a subordinate promissory note to Centerra Investments, LLC (“Centerra”), in the amount of \$79,180 to evidence the District’s reimbursement obligation for advances received from Centerra to pay costs associated with the District’s operations and maintenance and other budgeted general expenditures pursuant to an Amended and Restated 2013 Funding and Reimbursement Agreement. No further advances are permitted under this Agreement. Simple interest on the note is accrued at prime + 2% per annum from the date of any advances. The terms of the note provide for a maturity date of December 31, 2018, and further provide that in the event the District cannot repay all amounts due and owing at the maturity date, the District shall make a new note on similar terms, with a maturity date of December 31 of the succeeding year.

On January 1, 2018, the District issued a subordinate promissory note to Centerra in the amount of \$181,208 to evidence the District’s reimbursement obligation for advances received from Centerra to pay costs associated with the District’s operations and maintenance and other budgeted general expenditures pursuant to a 2014 Funding and Reimbursement Agreement, as amended by a First Amendment. No further advances are permitted under this Agreement. Simple interest on the note is accrued at the greater of 6% or prime + 2% per annum from the date of any advances. The terms of the note provide for a maturity date of December 31, 2018, and further provide that in the event the District cannot repay all amounts due and owing at the maturity date, the District shall make a new note on similar terms, with a maturity date of December 31 of the succeeding year.

On January 1, 2018, the District issued a subordinate promissory Note to C I Two, Inc. (“C I Two”) in an amount of \$156,578 to evidence the District’s reimbursement obligation for advances received from C I Two and to pay costs associated with the District’s operations and maintenance and other budgeted expenditures pursuant to a 2015 Funding and Reimbursement Agreement. Simple interest on the note is accrued at the greater of 6% or prime + 2% per annum from the date of any advances. The terms of the note provide for a maturity date of December 31, 2018, and further provide that in the event the District cannot repay all amounts due and owing at the maturity date, the District shall make a new note on similar terms, with a maturity date of December 31 of the succeeding year.

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 5: LONG-TERM DEBT** (Continued)

**Developer Advances - Capital**

On January 1, 2017, the District issued a subordinate promissory note to C R Development, Inc. ("C R Development"), in the amount not to exceed \$14,900,000 to evidence the District's reimbursement obligation for advances received from C R Development to pay costs associated with the construction of public infrastructure within and without the District's boundaries pursuant to an Advance and Reimbursement Agreement entered into on Dec. 26, 2013, as amended. This note refunded a previous issued note in January 2016, and was subsequently refunded on June 1, 2017 and on November 15, 2017. The refunded note was issued in an amount not to exceed \$16 million. Pursuant to an Eighth Amendment to the Advance and Reimbursement Agreement, C R Development's obligation to advance funds to the District was extended through December 31, 2018. Interest on the note is accrued at the greater of 6% or prime + 2% per annum from the date of any advances. The terms of the note provide for a maturity date of December 31, 2018, and further provide that in the event the District cannot repay all amounts due and owing at the maturity date, the District shall make a new note on similar terms, with a maturity date of December 31 of the succeeding year. On March 15, 2018, the note was paid in full and no further advances were made to the District through December 31, 2018.

On January 1, 2017, the District issued a subordinate promissory note to C R Development in the amount not to exceed \$3,500,000 to evidence the District's reimbursement obligation for advances received from C R Development to pay costs associated with the District's construction of public infrastructure within and without the District's boundaries pursuant to a 2016 Advance and Reimbursement Agreement entered into on January 1, 2016. Pursuant to the Second Amendment to the Agreement, CR Development's obligation to advance funds to the District was extended through December 31, 2018. The note refunded a previous issued note in January 2016 and was subsequently refunded on January 1, 2018. Interest on the note is accrued at the greater of 6% or prime + 2% per annum from the date of any advances. The terms of the note provide for a maturity date of December 31, 2017, and further provide that in the event the District cannot repay all amounts due and owing at the maturity date, the District shall make a new note on similar terms, with a maturity date of December 31 of the succeeding year. On March 15, 2018, the note was paid in full and no further advances were made to the District through December 31, 2018.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**NOTE 5: LONG-TERM DEBT**(Continued)

**Developer Advances – Capital** (Continued)

On June 1, 2017, the District issued a subordinate promissory note to CR Development in the amount not to exceed \$2.2 million to evidence the District's reimbursement obligation for advances received from CR Development to pay costs associated with the construction of public infrastructure within and without the District's boundaries pursuant to a 2017 Advance and Reimbursement Agreement entered into on the same date. Pursuant to a First Amendment to the 2017 Advance and Reimbursement Agreement, CR Development's obligation to extend funds to the District was extended through December 31, 2018 and authorized advances up to \$12.5 million, effective January 1, 2018. The note was refunded on January 1, 2018. Interest on the note is accrued at the greater of 6% or prime plus 2% per annum from the date of any advances. The terms of the note provide for a maturity date of December 31, 2018, and further, provide that in the event the District cannot repay all the amounts due and owing at the maturity date, the District shall issue a new note on similar terms with a maturity date of December 31, of the succeeding year.

On January 1, 2012, the District issued a subordinate promissory note to Centerra Residential Investments, LLC now known as Centerra, in the amount not to exceed \$50,000,000 to evidence the District's reimbursement obligation for advances received from Centerra Residential, LLC, now known as Centerra Investments, LLC, to pay costs associated with the District's acquisition of public infrastructure within and without the District's boundaries pursuant to an Improvement Acquisition and Reimbursement Agreement, dated January 1, 2011, as amended on July 11, 2013. Interest on the note is accrued at prime + 2% per annum from the date of any acquisition of public infrastructure. The terms of the note provide for a maturity date of December 31, 2052. On March 15, 2018, the note was paid in full and no further advances were made to the District through December 31, 2018.

On April 27, 2017, the District issued a subordinate promissory note to CR Development in the amount of \$112,863 to evidence the District's reimbursement obligation to pay costs associated with the construction of a public waterline dedicated to the City pursuant to an Improvement Acquisition and Reimbursement Agreement dated January 1, 2017. Interest on the note is accrued at the greater of 6% or prime plus 2% per annum from the date of issuance. The terms of the note provide for a maturity date of April 27, 2057. On March 15, 2018, the note was paid in full.

On December 5, 2018, the District and CR Development entered into an Improvement Acquisition and Reimbursement Agreement to set forth the terms for the District acceptance regarding repayment of costs associated with CR Development's construction of waterlines to be dedicated to the City. The District's acceptance and repayment of costs is not to exceed \$180,000.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**NOTE 5: LONG-TERM DEBT** (Continued)

**Developer Advances – Capital** (Continued)

On March 14, 2018, The Lakes at Centerra Metropolitan District No. 2 (“District No. 2”) issued Limited Tax General Obligation Refunding and Improvement Bonds Series 2018A in the amount of \$29,035,000 and Subordinate Limited Tax General Obligation Bonds, Series 2018B in the amount of \$4,090,000. \$16,776,083 of the proceeds were transferred to the District to be available to fund additional improvements and to repay the District’s outstanding developer advances.

**NOTE 6: RELATED PARTIES**

All of the members of the Board are employees of McWhinney Real Estate Services, Inc., Centerra Investments, CR Development, or C I Two (the “Developers”) and may be owners and/or investors in the Developers. The District owes the Developers \$3,173,158 in note principal and \$141,044 in accrued interest as of December 31, 2018.

**NOTE 7: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Colorado Special Districts Property and Liability Insurance Pool (the “Pool”). The Pool insures property and liability exposures through contributions made by member districts. The District does not maintain an equity interest in the self-insurance pool. The District funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund.

Settled claims resulting from these risks have not exceeded commercial or District coverages in any of the past three years.

**NOTE 8: DEBT AUTHORIZATION**

On November 6, 2007, a majority of the qualified electors of the District authorized the issuance of general obligation indebtedness as follows:

- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for the cost of constructing street improvements; and
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for the cost of constructing parks and recreation facilities; and

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 8: DEBT AUTHORIZATION** (Continued)

- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for the cost of constructing a water and distribution system.
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for the cost of constructing a sanitation system; and
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for the cost of constructing transportation facilities and equipment; and
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for mosquito control purposes; and
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for safety purposes; and
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for security improvement purposes; and
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for television relay and translation purposes; and
- An amount not to exceed \$1,000,000 at an interest rate not to exceed 12% per annum, for operations and maintenance purposes; and
- An amount not to exceed \$100,000,000 at an interest rate not to exceed 12% per annum, for the cost of refunding bonds; and
- An amount not to exceed \$51,000,000 at an interest rate not to exceed 12% per annum, for the cost of intergovernmental agreements; and
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, for reimbursement agreement purposes.
- An amount not to exceed \$51,000,000 at an interest rate not to exceed 12% per annum, for the cost of construction management; and
- An amount not to exceed \$50,000,000 at an interest rate not to exceed 12% per annum, to issue mortgages on District real and personal property

The District's Service Plan includes a debt authorization limit of \$50,000,000.

As of December 31, 2018, the amount of debt authorized but unissued was \$46,826,842.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**NOTE 8: DEBT AUTHORIZATION** (Continued)

The District intends to issue over time a part or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

TABOR Amendment - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2018, the emergency reserve of \$5,900 was recorded as a restriction of fund balance in the General Fund.

**REQUIRED SUPPLEMENTAL INFORMATION**

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended December 31, 2018

	2018			VARIANCE	2017 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Service Fees	\$ 190,467	\$ 192,418	\$ 193,408	\$ 990	\$ 271,533
Interest	-	3,500	4,259	759	939
TOTAL REVENUES	190,467	195,918	197,667	1,749	272,472
EXPENDITURES					
Current					
General Government					
Accounting and Administration	50,900	50,900	50,899	1	49,697
District Management	39,000	39,000	38,931	69	37,898
Maintenance	21,400	18,000	4,525	13,475	11,349
Insurance	7,563	9,573	13,600	(4,027)	7,203
Legal Expenses	60,000	55,000	44,712	10,288	75,107
Office, Dues and Other	7,844	35,800	38,207	(2,407)	69,304
Elections	1,500	1,270	1,270	-	-
Contingency	10,000	-	-	-	-
TOTAL EXPENDITURES	198,207	209,543	192,144	17,399	250,558
FUND BALANCE, Beginning	55,864	65,778	65,780	2	43,866
FUND BALANCE, Ending	\$ 48,124	\$ 52,153	\$ 71,303	\$ 19,150	\$ 65,780

See the accompanying independent auditors' report.

**INDIVIDUAL FUND SCHEDULE**

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

CAPITAL PROJECTS FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended December 31, 2018

	2018			VARIANCE Positive (Negative)	2017 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 3,417
Other	-	-	-	-	100,000
TOTAL REVENUES	-	-	-	-	103,417
EXPENDITURES					
Current					
Project Administration	10,000	20,000	-	20,000	-
General District Management	8,000	16,000	17,967	(1,967)	5,936
Engineering and Surveying	10,000	10,000	25,220	(15,220)	9,395
Capital Expenditures	9,649,426	9,722,764	6,611,927	3,110,837	2,443,204
Developer Advance Repayments	-	16,616,992	12,895,741	3,721,251	10,654,480
Contingency	100,000	-	-	-	-
TOTAL EXPENDITURES	9,777,426	26,385,756	19,550,855	6,834,901	13,113,015
CHANGE IN FUND BALANCE	(9,777,426)	(26,385,756)	(19,550,855)	6,834,901	(13,009,598)
OTHER FINANCING SOURCES					
Proceeds from Developer Advances	9,765,769	9,430,052	2,837,392	(6,592,660)	2,416,581
Transfer from District No. 2	-	16,776,083	16,808,127	32,044	7,480,210
TOTAL OTHER FINANCING SOURCES (USES)	9,765,769	26,206,135	19,645,519	(6,560,616)	9,896,791
NET CHANGE IN FUND BALANCE	(11,657)	(179,621)	94,664	274,285	(3,112,807)
FUND BALANCE, Beginning	11,657	179,621	179,619	(2)	3,292,426
FUND BALANCE, Ending	\$ -	\$ -	\$ 274,283	\$ 274,283	\$ 179,619

See the accompanying independent auditors' report.