

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

BASIC FINANCIAL STATEMENTS

December 31, 2022

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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

Opinions

We have audited the financial statements of the governmental activities and each major fund, of The Lakes at Centerra Metropolitan District No. 1 (the "District") as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Lakes at Centerra Metropolitan District No. 1 and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures of the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required budgetary information on page 20 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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.

Supplementary and 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 financials as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements.

The individual fund schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

John Luthr & Associates, LLC

November 6, 2023

BASIC FINANCIAL STATEMENTS

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

As of December 31, 2022

	Governmental Activities	
	2022	2021
ASSETS		
Cash and Investments	\$ 467,647	\$ 393,088
Accounts Receivable	90,629	501,246
Developer Advances Receivable	348,357	348,357
Construction Deposit	33,360	67,404
Due from Other Government	-	-
Prepaid Expenses	11,110	10,464
Capital Assets, not depreciated	21,842,383	21,547,831
Capital Assets, depreciated, net	2,570,272	2,689,817
TOTAL ASSETS	25,363,758	25,558,207
LIABILITIES		
Accounts Payable	87,521	340,394
Due to Other Government	12,581	-
Retainage Payable	28,938	26,938
Accrued Interest	-	1,894,273
Noncurrent Liabilities		
Due within One Year	-	16,243,166
Due in More Than One Year	-	-
TOTAL LIABILITIES	129,040	18,504,771
NET POSITION		
Net Investment in Capital Assets	24,412,655	7,994,482
Restricted for Emergencies	11,310	9,600
Unrestricted	810,753	(950,646)
TOTAL NET POSITION	\$ 25,234,718	\$ 7,053,436

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position	
		Capital Grants and Contributions	Charges for Services	Governmental Activities	
				2022	2021
PRIMARY GOVERNMENT					
Governmental Activities					
General Government	\$ 506,418	\$ 8,681	\$ 372,520	\$ (125,217)	\$ 662,063
Interest on Long-Term Debt	73,110	-	-	(73,110)	(880,260)
Total Governmental Activities	<u>\$ 579,528</u>	<u>\$ 8,681</u>	<u>\$ 372,520</u>	(198,327)	(218,197)
GENERAL REVENUES					
Interest				4,502	69
Other				164,558	(727,231)
Special Item					
Transfer from District No. 2				16,316,276	-
Foregiveness of Interest				1,894,273	-
TOTAL GENERAL REVENUES				<u>18,379,609</u>	<u>(727,162)</u>
CHANGE IN NET POSITION				18,181,282	(945,359)
NET POSITION, Beginning, Restated				<u>7,053,436</u>	<u>7,998,795</u>
NET POSITION, Ending				<u>\$ 25,234,718</u>	<u>\$ 7,053,436</u>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2022

	GENERAL FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS	
			2022	2021
ASSETS				
Cash and Investments	\$ 386,498	\$ 81,149	\$ 467,647	\$ 393,088
Accounts Receivable	1,823	88,806	90,629	501,246
Developer Advance Receivable	-	348,357	348,357	348,357
Escrow	-	33,360	33,360	67,404
Prepaid Expenses	11,110	-	11,110	10,464
TOTAL ASSETS	\$ 399,431	\$ 551,672	\$ 951,103	\$ 1,320,559
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ 87,521	\$ -	\$ 87,521	\$ 340,394
Due to Other Government	12,581	-	12,581	-
Retainage Payable	28,938	-	28,938	26,938
TOTAL LIABILITIES	129,040	-	129,040	367,332
FUND EQUITY				
Fund Balance				
Nonspendable	11,110	33,360	44,470	77,868
Restricted for Emergencies	11,310	-	11,310	9,600
Committed for Capital Projects	-	518,312	518,312	694,795
Unassigned	247,971	-	247,971	170,964
TOTAL FUND EQUITY	270,391	551,672	822,063	953,227
TOTAL LIABILITIES AND FUND EQUITY	\$ 399,431	\$ 551,672		

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.	24,412,655	24,237,648
Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include developer advances (\$378,486) and accrued interest payable (\$1,965,532).	-	(18,137,439)
Net Position of governmental activities	\$ 25,234,718	\$ 7,053,436

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, 2022

	GENERAL FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS	
			2022	2021
REVENUES				
Service Fees	\$ 372,520	\$ -	\$ 372,520	\$ 317,700
Intergovernmental	-	8,681	8,681	1,062,031
Other	-	164,558	164,558	-
Interest	4,502	-	4,502	69
TOTAL REVENUES	<u>377,022</u>	<u>173,239</u>	<u>550,261</u>	<u>1,379,800</u>
EXPENDITURES				
Current				
General Government	297,659	137,397	435,056	285,548
Capital Outlay	-	246,369	246,369	2,990,770
TOTAL EXPENDITURES	<u>297,659</u>	<u>383,766</u>	<u>681,425</u>	<u>3,276,318</u>
EXCESS OF REVENUES (UNDER) EXPENSES	<u>79,363</u>	<u>(210,527)</u>	<u>(131,164)</u>	<u>(1,896,518)</u>
OTHER FINANCING SOURCES				
Proceeds from Developer Advances	-	-	-	2,331,708
Developer Advances Repayments	-	(16,316,276)	(16,316,276)	2,331,708
Transfer from District No. 2	-	16,316,276	16,316,276	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,663,416</u>
NET CHANGE IN FUND BALANCES	79,363	(210,527)	(131,164)	2,766,898
FUND BALANCES, Beginning, Restated	<u>191,028</u>	<u>762,199</u>	<u>953,227</u>	<u>518,037</u>
FUND BALANCES, Ending	<u>\$ 270,391</u>	<u>\$ 551,672</u>	<u>\$ 822,063</u>	<u>\$ 3,284,935</u>

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, 2022

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

Net Changes in Fund Balances - Total Governmental Funds	\$ (131,164)
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 \$294,552 exceeded depreciation (\$119,545) for the period.	175,007
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 is the payment of developer advances \$16,316,276 and change in accrued interest \$1,821,163.	<u>18,137,439</u>
Change in Net Position of Governmental Activities	<u><u>\$ 18,181,282</u></u>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

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 and without 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 organizations in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. Pursuant to governmental accounting standards the District is financially accountable for any organizations that make up its legal entity. It is also financially accountable for any 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 has determined that it is not financially accountable to any organizations and 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, 2022

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, 2022

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, 2022

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, 2022.
- 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, 2022

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 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 by and submitted to The Lakes at Centerra Metropolitan District Nos. 2 and 3 and forwarded to the District as a payment for administrative, operations and maintenance services. These payments are labeled as charges for services in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

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, 2022

NOTE 3: CASH AND INVESTMENTS

A summary of deposits and investments as of December 31, 2022 follows:

Deposits	\$ 182,554
Investments	<u>285,093</u>
Total	<u>\$ 467,647</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, 2022, 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, 2022, the District had deposits with financial institutions with a carrying amount of \$182,554. The bank balances with the financial institutions were \$182,554. 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, 2022

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.

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs. The District had no investments requiring fair value measurement as of December 31, 2022.

Local Government Investment Pools

The District had invested \$285,093 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.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

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.

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2022, is summarized below:

	<u>Balances</u> <u>12/31/21</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/22</u>
Governmental Activities				
Capital Assets, not depreciated				
Construction in Progress	\$ 21,547,831	\$ 359,129	\$ 64,577	\$ 21,842,383
Capital Assets, depreciated				
Infrastructure	3,178,834	-	-	3,178,834
Less Accumulated Depreciation				
Infrastructure	489,017	119,545	-	608,562
Total Capital Assets, depreciated, net	2,689,817	(119,545)	-	2,570,272
Governmental Activities, Capital Assets, net	<u>\$ 24,237,648</u>	<u>\$ 239,584</u>	<u>\$ 64,577</u>	<u>\$ 24,412,655</u>

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

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2022:

	<u>Balance</u> <u>12/31/21</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/22</u>	<u>Due In</u> <u>One Year</u>
Developer Advances					
- Operating	\$ 422,319	\$ -	\$ 422,319	\$ -	\$ -
Developer Advances					
- Capital	15,820,847	-	15,893,957	-	-
Total	<u>\$ 16,243,166</u>	<u>\$ -</u>	<u>\$ 16,316,276</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

NOTE 5: LONG-TERM DEBT (Continued)

Developer Advances – Operating

On January 1, 2021, 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, 2021, 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. These advances were paid in full with the District 2 bond proceeds. No amounts were outstanding as of December 31, 2022.

On January 1, 2021, 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, 2021, 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. These advances were paid in full with the District 2 bond proceeds. No amounts were outstanding as of December 31, 2022.

On January 1, 2021, the District issued a subordinate promissory Note to C I Two, Inc. (“C I Two”) in an amount of \$161,932 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, 2021, 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. These advances were paid in full with the District 2 bond proceeds. No amounts were outstanding as of December 31, 2022.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

NOTE 5: LONG-TERM DEBT (Continued)

Developer Advances - Capital

On January 1, 2021, the District issued a subordinate promissory note to CR Development in the amount not to exceed \$17.8 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 2021 Advance and Reimbursement Agreement entered into on the same date. 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, 2021, 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. These advances were paid in full with the District 2 bond proceeds. No amounts were outstanding as of December 31, 2022.

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. On May 23, 2021, the District issued a subordinate promissory note to CR Development in the amount of \$167,075. Interest on the note is accrued at the greater of 6% or prime plus 2% per annum. The maturity date is May 22, 2059.

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 2019B 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.

On April 1, 2022, The Lakes at Centerra Metropolitan District No. 2 ("District No. 2") issued Junior Lien Limited Tax General Obligation Bonds Series 2022C in the amount of \$8,500,000 and Taxable Junior Subordinate Limited Tax General Obligation Bonds, Series 2022D in the amount of \$7,816,276. \$16,316,276 of the proceeds were transferred to the District 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., manager of Centerra Investments, CR Development, and C I Two (the "Developers") and may be owners and/or investors in the Developers. The District does not owe the Developers any amounts as of December 31, 2022.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

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
- 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

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

NOTE 8: DEBT AUTHORIZATION

- 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, 2022, the district has issued all of its authorized debt.

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, 2022, the emergency reserve of \$9,600 was recorded as a restriction of fund balance in the General Fund.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

NOTE 10: SUBSEQUENT EVENTS

Potential subsequent events were considered through November 6, 2023. It was determined that no events are required to be disclosed through this date.

REQUIRED SUPPLEMENTAL INFORMATION

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2022

	2022		VARIANCE Positive (Negative)	2021 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Service Fees	\$ 372,730	\$ 372,520	\$ (210)	\$ 317,700
Interest	17	4,502	4,485	69
TOTAL REVENUES	<u>372,747</u>	<u>377,022</u>	<u>4,275</u>	<u>317,769</u>
EXPENDITURES				
Current				
General Government				
Accounting and Administration	66,450	62,220	4,230	58,280
District Management	78,520	78,520	-	67,700
Maintenance	13,000	18,670	(5,670)	9,712
Insurance	11,839	10,464	1,375	10,763
Legal Expenses	60,000	31,141	28,859	52,449
Office, Dues and Other	94,000	91,451	2,549	70,403
Elections	25,000	5,193	19,807	25
Contingency	10,000	-	10,000	-
TOTAL EXPENDITURES	<u>358,809</u>	<u>297,659</u>	<u>61,150</u>	<u>269,332</u>
NET CHANGE IN FUND BALANCE	13,938	79,363	65,425	48,437
FUND BALANCE, Beginning	<u>174,523</u>	<u>191,028</u>	<u>16,505</u>	<u>142,591</u>
FUND BALANCE, Ending	<u>\$ 188,461</u>	<u>\$ 270,391</u>	<u>\$ 81,930</u>	<u>\$ 191,028</u>

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, 2022

	2022			VARIANCE	2021 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Intergovernmental	\$ -	\$ 6,326	\$ 8,681	\$ 2,355	\$ 1,062,031
Other	-	-	164,558	164,558	-
TOTAL REVENUES	-	6,326	173,239	166,913	1,062,031
EXPENDITURES					
Current					
Project Administration					
General District Management	20,000	20,000	24,637	(4,637)	273
Engineering and Surveying	10,000	10,000	112,760	(102,760)	15,943
Capital Expenditures	2,833,932	2,833,932	246,369	2,587,563	2,990,770
Contingency	25,000	25,000	-	25,000	-
TOTAL EXPENDITURES	2,888,932	2,888,932	383,766	2,505,166	3,006,986
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,888,932)	(2,882,606)	(210,527)	2,672,079	(1,944,955)
OTHER FINANCING SOURCES					
Proceeds from Developer Advances	2,888,932	2,120,138	-	(2,120,138)	2,331,708
Developer Advances Repayments	-	(16,316,276)	(16,316,276)	-	-
Transfer from District No. 2	-	16,316,276	16,316,276	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,888,932	2,120,138	-	(2,120,138)	2,331,708
NET CHANGE IN FUND BALANCE	-	(762,468)	(210,527)	551,941	386,753
FUND BALANCE, Beginning		762,468	762,199	(269)	375,446
FUND BALANCE, Ending	\$ -	\$ -	\$ 551,672	\$ 551,672	\$ 762,199

See the accompanying independent auditors' report.