

EY update to the LURA board

October 14, 2025

Current observations and recommendations



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Background and approach

LURA engaged EY to provide the following services:

- ✓ • Conduct initial discussions to assess document availability and types and submit requests for financial statements and reimbursement documents from relevant entities.
- ✓ • Participate in discussions with the Authority and collect necessary accounting records and financial documentation as outlined in the MFA.
- ✓ • Analyze the MFA and financial information to understand funding sources, financial mechanisms, and fund flow among entities during the scope period.
- ✓ • Identify and report on abnormal transactions or irregular activities, including compliance with MFA terms and conditions, and evaluate related party transactions.
- Provide preliminary recommendations for further forensic examination, including cost estimates and detailed investigation workstreams for suspected violations.

EY planned our assessment procedures into three primary workstreams to evaluate compliance with select requirements in the MFA.

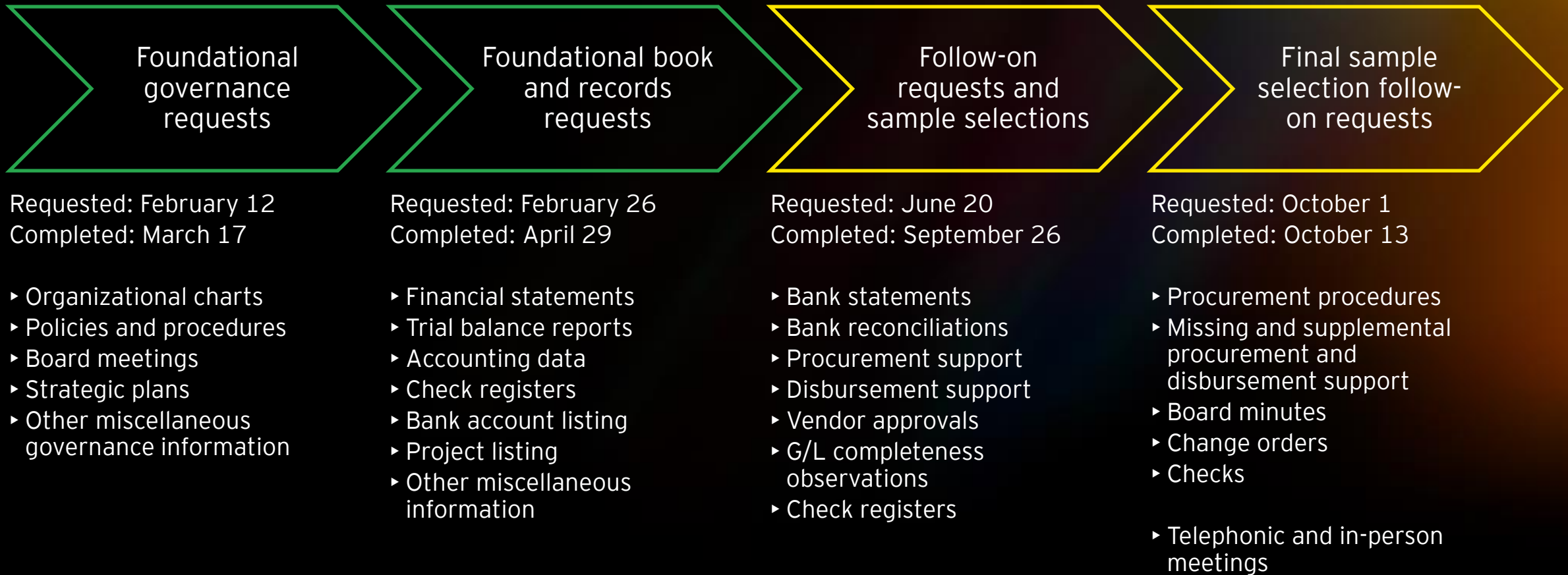
Primary Workstreams

1. Procurement Process
2. Related Party Transactions
3. Disbursement Process

Related MFA sections

- 6.3 Competitive Bidding
- 8.1 Accounting and subsections
- 8.2 Documentation
- 8.3 Book and Records
- Exhibit L – Contract Procurement Process

Timeline of requests



Data received in response to documentation requests

5,857

Files received
(3,354 since August update)

15

Years covered within scope

313

Vendors identified

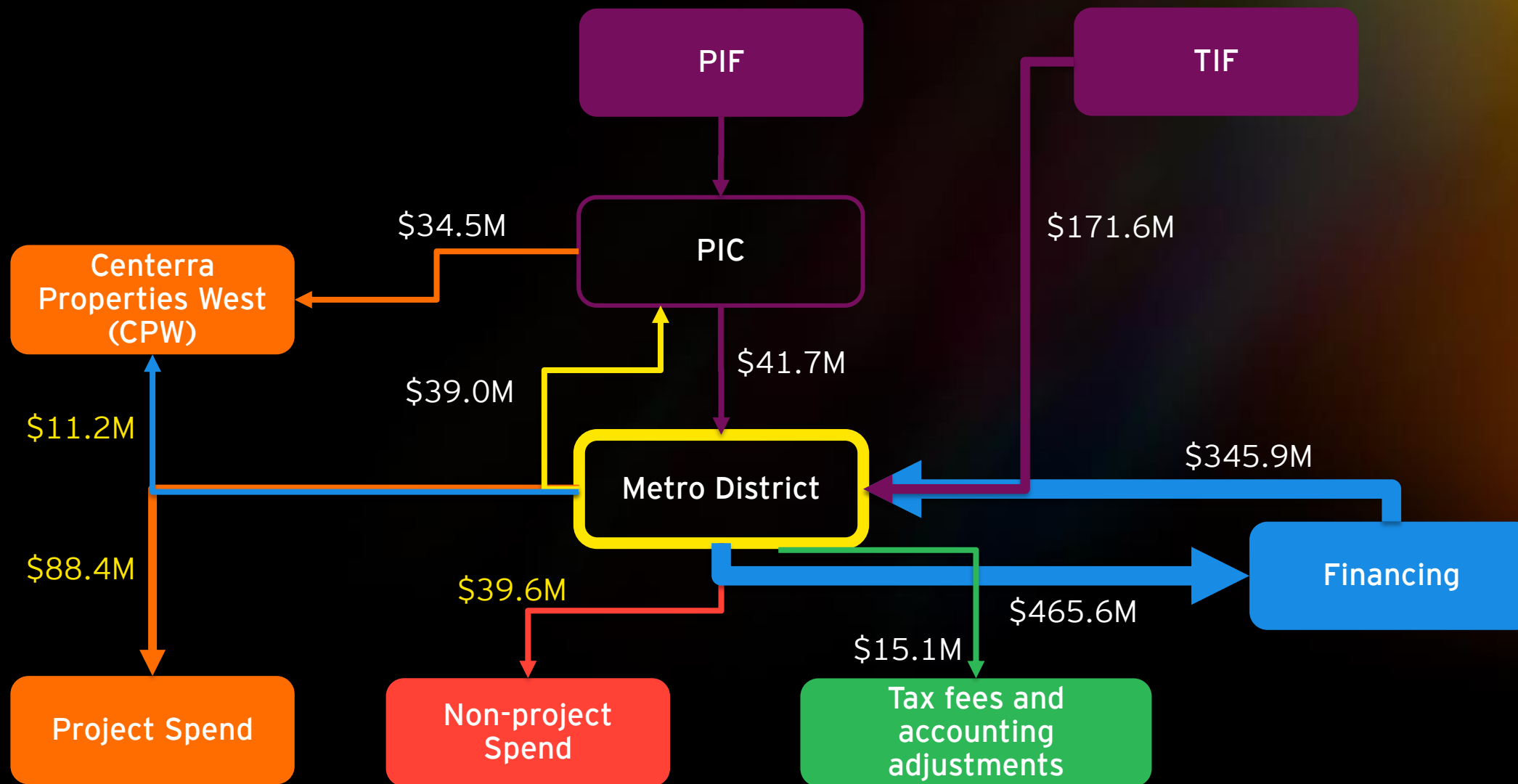
90,440

General Ledger
lines analyzed

\$1.26B

Cash flows analyzed





Illustrative understanding of the flow of funds








Overview of transaction sample selections

- Based on analysis performed, EY selected a sample 73 cash disbursements and 9 public bid awards and requested supporting documentation. EY took a risk-based approach using the following high-level categories:

Observations of potential issues

-  Vendor spending exceeded awarded bid amount
-  Projects with no public bids
-  Spending >\$60k with no public bid
-  Disbursements made outside project timelines

High-risk disbursements

-  Developer reimbursements
-  Related party transactions
-  Round dollar amounts
-  Repeated dollar amounts
-  Vendors with high non-project spend

Observations summary

Procurement observations

1. Metro District did not perform the MFA required procurement process for vendor pre-qualification
2. Metro District did not solicit public bids for all “Construction” work, as that term is defined in the MFA
3. Metro District did not provide evidence that a bid abstract sheet was used or maintained, which was to be used to document the receipt of bid submissions
4. Metro District awarded one contract to a bid which appears not to conform to requirements in the bid solicitation and one contract which contained a change order for additional scope on a project that appears should have been subject to the MFA public bid requirements

Disbursement testing observations

1. Bookkeeping and record keeping observations related to expense classification in the general ledger, missing expense approval documentation, expenses recognized in the incorrect period and the absence of a monthly close process.

Related party observations

1. Metro District does not perform and document formal procedures to evaluate (1) whether transactions with related parties are entered into at arms-length or (2) that such transactions are in the best interest of the Metro District, LURA and the taxpayers.

Procurement Process

Procurement process contained in MFA

- The MFA contains sections specifically relevant to requirements governing the utilization of competitive and public bidding.

6.3.2 Local Improvements. For all work commencing on or after January 20, 2004, Constructors and the Service District shall comply with the contract procurement processes set forth on **Exhibit “L”** for all construction contracts for work or material, or both, involving the Public Improvements.

1.24 “Construct”, “Constructed” and/or “Construction” shall mean, refer to and Include the design, construction, installation, maintenance, repair, replacement, reconstruction, improvement, expansion and operation of the described improvements.

1.25 “Constructor” shall mean and refer to the PID, the Developer and/or its Affiliates to the extent such Persons Construct Public Improvements.

- Contracting for Local Improvement construction under the MFA follow the procurement process described in MFA Exhibit L.
- MFA Exhibit L is a detailed 11-page document split into two primary sections: 1) the competitive sealed bidding process, and 2) the prequalification process for contractors.

EXHIBIT “L”
to Centerra Master Financing
and Intergovernmental Agreement
Contract Procurement Processes

GENERAL PURPOSE: All construction contracts greater than \$25,000 or such higher amount as may be established in the Special Districts Act, for Local Improvements by the Service District/Constructor, shall be awarded by a Competitive Sealed Bidding Process (outlined in Sections 1.0 and 2.0 below).

Section 1.0-- Construction of Local Improvements - Competitive Sealed Bidding Process

The purpose of this section is to set forth procedures for competitive sealed bidding and award of contracts for Local Improvements.

(1) An invitation for bids shall be issued and shall include a project description and all contractual terms and conditions applicable to the Local Improvements.

(2) Adequate public notice of the invitation for bids shall be given at least fourteen calendar days prior to the date set forth therein for the opening of bids, pursuant to rules. Such notice may include publication by electronic on-line access and in a newspaper of general circulation at least fourteen days prior to bid opening. The public notice of the invitation to bid shall at a minimum be placed in the Loveland Reporter Herald, Fort Collins Coloradoan, Greeley Tribune and the Longmont Daily Times.

(3) Bids shall be opened publicly in the presence of one or more witnesses at the time and place designated in the invitation for bids. The amount of each bid and such other relevant information as may be specified by rules, together with the name of each bidder, shall be entered on a record, and the record shall be open to public inspection. After the time of the award, all bids and bid documents shall be open to public inspection.

(5) Bids, from pre-qualified contractors, shall be unconditionally accepted, except as authorized by subsection (7) of this section. Bids shall be evaluated based on the requirements set forth in the invitation for bids, which may include criteria to determine acceptability, such as inspection, testing, quality, workmanship, delivery, and suitability for a particular purpose. Those criteria that will affect the bid price and be considered in the evaluation for award shall be objectively measurable, such as discounts, transportation costs, and total or life-cycle costs.

(6) Withdrawal of inadvertently erroneous bids before the award may be permitted pursuant to rules if the bidder submits proof of evidentiary value which clearly and convincingly demonstrates that an error was made. Except as otherwise provided by rules, all decisions to permit the withdrawal of bids based on such bid mistakes shall be supported by a written determination made by the Service District / Constructor.

(7) The contract shall be awarded with reasonable promptness by written notice to the low responsible bidder whose bid meets the requirements and criteria set forth in the invitation for bids. In the event that all bids for a construction project exceed available funds, the Service District / Constructor is authorized, in situations where time or economic considerations preclude resolicitation of work of a reduced scope, to negotiate an adjustment of the bid price with the low responsible bidder in order to bring the bid within the amount of available funds; except that the functional specifications integral to completion of the project may not be reduced in scope, taking into account the project plan, design, and specifications and quality of materials.

Procurement process testing

- EY performed analysis on the \$88.4 million of project spending to assess compliance with the Competitive Bidding requirement and the Contract Procurement Process (MFA Exhibit L). EY judgmentally selected a sample of 9 of the 46 project awards contained in the project listing provided by Pinnacle. The sample included \$11.9 million of the \$51.1 million awarded through public bid since 2015.

Documents requested:

- | | | |
|---|---|--|
| 1. Bid Invitations, revisions and cancellations | 5. Bid abstract sheet | 10. Contract Award Notice |
| 2. Bid Proposals, revisions, amendments and withdrawals | 6. Documentation of review or scoring of the bids | 11. Cancellation of Award, if applicable |
| 3. Documentation of proposal guarantees | 7. Bid Rejection notices | 12. Execution and approval of contract |
| 4. Prequalification documentation | 8. Performance capability statements | 13. Documentation of surety bonds |
| | 9. Documentation of review of the performance capability statements | |

- EY assessed the documentation provided for alignment with the procurement process set forth in MFA Exhibit L and, separately, the stated procurement practices performed by the Metro District.
- In addition, EY judgmentally selected a sample of 46 transactions totaling \$13.2 million related to project spend to validate the project listing originally provided by Pinnacle and assess to the underlying source documents.
- EY met with the Metro District to better understand the documentation provided, discuss EY's preliminary observations and to clarify our understanding of the Metro District's current procurement practices.

Procurement observation #1 – Exhibit L not utilized

- The Metro District did not perform the MFA required procurement process for vendor pre-qualification, which requires that all bidders be prequalified and that the lowest bid submitted by a prequalified bidder be awarded.

1.9 Criteria for Receiving Bids

Bids will be received only from contractors that are prequalified at the time of bid opening in accordance with the provisions of Section 2.0 below, and not currently debarred or suspended by the Service District / Constructor.

2. 03 Prequalification Application

A contractor who wishes to submit a bid for a public project is required to file a prequalification application with the Service District / Constructor or designee. Any new application or renewal application must be submitted not less than ten calendar days prior to the opening of any bid or projects on which the contractor desires to submit a bid.

- In practice, from at least 2015, on awarded contracts totaling \$51 million, the Metro District utilized a separate procurement practice and performed an evaluation of bidders after the bid amounts were revealed. This process resulted in instances where the lowest bidder was not selected.
- Public competitive bidding processes and the related controls are designed to ensure:
 - Fair competition – Equal opportunity for competition among qualified vendors and create an environment for efficiency and best use of taxpayer funds
 - Transparency and accountability – Prevention of perceived or actual favoritism, corruption and misuse of public funds
 - Value for taxpayers – Comparison of multiple offers and selection of best price from a qualified vendor.

Procurement recommendations - observation #1

■ Recommendations:

1. LURA should consider one of the following options:

- Consider formally assessing the procurement practice currently used by the Metro District and evaluate a possible amendment to the MFA to align to current practice; or
- Instruct the Metro District to institute written procedures which adhere to the MFA procurement process and cause regular reviews to be performed to ensure the Metro District is following the MFA procurement process.

2. LURA should consider additional forensic procedures regarding procurements conducted by Centerra Properties West, that was also required to follow the MFA procurement procedures, to determine whether similar issues exist for construction projects funded by the PIC. It appears \$34.5 million was paid to Centerra Properties West between 2009 and 2013 based on the check registers provided.

3. LURA should consider causing the remaining 37 bid awards to be assessed for potential instances of awards for which the selected contractor was not the lowest bidder to understand why the lowest bidder was not chosen for both Metro District and Centerra Properties West procurements.

Procurement observation #2 – non-solicitation of public bids

- The MFA requires that all construction contracts above a defined threshold must be put to public bid. Construction is defined in the body of the MFA to include:
 - "...design, construction, installation, maintenance, repair, replacement, reconstruction, improvement, expansion, and operation of the described improvement."

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1.24 "Construct", "Constructed" and/or "Construction" shall mean, refer to and

Include the design, construction, installation, maintenance, repair, replacement, reconstruction, improvement, expansion and operation of the described improvements.

- For the nine sampled projects, the Metro District did not solicit public bids for all the elements included in the definition of Construction; e.g., design activities and ongoing maintenance.
- We identified \$6.2 million of project spend that was not subject to public bid but potentially should have been depending on the interpretation of the definition of "Construction."

Procurement recommendations - observation #2

■ Recommendations:

1. LURA should solicit legal advice from counsel regarding the interpretation of “construction contracts” in Exhibit L to the MFA, and whether all aspects of the defined term “Construction”, fall within the requirements of this exhibit. LURA should consider this advice and whether it aligns with LURA’s expectation for the types of services subject to the public bid process and if any amendments to the MFA should be considered.
2. If the determination is made that all aspects of the defined term “Construction” should have been subject to Exhibit L, then LURA should consider expanded testing on project spend prior to 2015 and non-project spend to date.
3. LURA should consider additional forensic procedures regarding procurements conducted by Centerra Properties West, that was also required to follow the MFA procurement procedures, to determine whether similar issues exist for construction projects funded by the PIC. It appears \$34.5 million was paid to Centerra Properties West between 2009 and 2013 based on the check registers provided.

Procurement observation #3 – recording of bids not followed

- MFA Exhibit L requires that all bids received be recorded on a bid abstract sheet. This bid abstract provides a verifiable audit trail that all bids were received from prequalified contractors prior to the deadline.

1.10 Recording of Bids

When a bid is received by Service District /Constructor, the person receiving the bid shall stamp the date received on the sealed envelope, write the time received, and initial it. That person shall then enter the contractors' names, in the order received, on a bid abstract sheet for the Local Improvements indicated on the envelope. If the bid has been delivered in person and there is no project indicated on the envelope, the persons receiving the bid shall require the person submitting the bid to write the project number on the envelope. If the bid has been received in the mail and there is no project indicated on the envelope, an attempt shall be made to contact the contractor submitting the bid in order to determine what project the bid is for. If the contractor is contacted, the project number shall be written on the envelope. If this cannot be done, an authorized agent of the Service District / Constructor shall open the sealed envelope in the presence of at least one witness, determine the project from the bid in the envelope without looking at the schedule of bid prices, reseal the envelope and write the project number on the envelope.

- The Metro District did not provide documentation to reflect when bids were received from bidders.
- Documentation of when bids were received, specifically indicating receipt prior to the bid deadline is a safeguard to demonstrate accountability and to prevent perceived or actual favoritism, bid rigging, corruption or misuse of public funds.

Procurement recommendations - observation #3

- Recommendation:

1. LURA should instruct the Metro District to implement the requirement of the MFA to maintain a bid abstract sheet, or otherwise memorialize, the date, time, and manner in which bid submissions are received to evidence that all bids are appropriately received prior to the bid period deadline.

Procurement observation #4 – other specific observations

- In our assessment of the procurement documentation related to the nine awards in our sample, we identified documentation that suggests a potential lack of alignment with requirements of the MFA or the Metro District's current procurement practices.

No.	Summary of observation	Sample Exception	Amount
1	Change order adding new project scope, greater than \$60k, without public bid.	1 of 9	\$82,630
2	Contract awarded to potentially non-conforming bid, due to maximum subcontractor involvement exceeding the stated maximum.	1 of 9	\$1,693,745

- Both examples represent potential challenges to fair and transparent competition, the selection of the best price from a qualified vendor and effective use of taxpayer funds.

Procurement recommendations - observation #4

■ Recommendations:

1. LURA should consider causing the remaining 37 contracts to be assessed for potential instances of non-compliance with the MFA and/or other areas of process improvement.
2. LURA should consider expanding the existing sample to include contracts prior to 2015 to determine whether the \$18.4 million spent from 2009 to 2014 includes potential instances of non-compliance and/or other areas of process improvement.
3. LURA should consider requesting the Metro District to formalize processes to evaluate if change orders representing potential scope changes should be subject to the Competitive Bidding requirement, included in Exhibit L of the MFA.
4. LURA should consider requesting the Metro District to formalize processes to contemporaneously document known exceptions to Exhibit L and/or its current procurement practices.

Disbursement Process

Disbursements process testing

- EY performed analysis on all vendor spending across both project and non-project ledger accounts, totaling \$128 million, as well as other cash outflows. EY judgmentally selected a sample of 73 cash disbursement transactions totaling \$29.6 million.

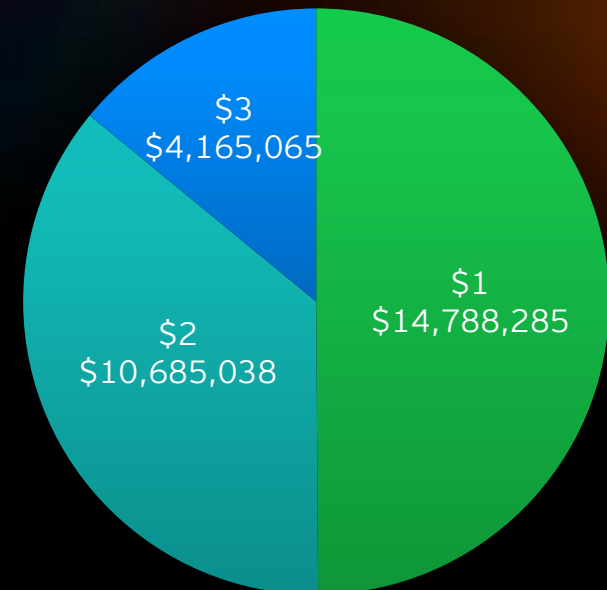
Documents requested:

1. Executed contract or purchase order
2. Copies of statements, invoices, or other supporting documentation for the payments
3. Copies of each check or other evidence of payment
4. Approval documentation for the disbursement
5. An itemized statement of costs and expenses for which the Constructor seeks reimbursement, if applicable
6. A certification signed by the Constructor's president or principal, if applicable
7. Written consent and agreement to comply with the terms and provisions of Section 8 of the MFA, if applicable

- EY's disbursements testing incorporated the following:

1. Examining contracts, invoices and payments for consistency and appropriate use of funds.
 2. Checking that invoices were signed-off and payments were approved.
 3. Matching supporting documents with the information in the general ledger.
- EY met with Pinnacle Consulting and Mr. Pogue to better understand the documentation provided, discuss EY's preliminary observations and to clarify EY's understanding of the Metro District's vendor relationships and disbursement processes.

Selection categories



Disbursement observations – approval and coding

- Control surrounds the completeness, accuracy and timeliness of an organization's books and records contribute informed decision making, operational efficiency, risk management and credibility.
- Transaction recording observations:
 - General Ledger account coding forms the basis of the financial statements and allows actual spending to be tracked against approved budgets.
 - We observed instances where the district manager did not document approval provide general account coding when approving an invoice.
 - We observed instances where the coding specified by the district manager was not adhered to when the disbursement was recorded in the general ledger.
 - We observed instances where disbursements were allocated to incorrect general ledger accounts. This led to inaccuracies in previously documented project overages and resulted in payments to vendors being misassigned to projects, or to general ledger accounts corresponding to different types of services than those provided.
- Transaction date mismatch between the GL and supporting documents
 - The Metro District does not perform a month-end financial close process. As a result, the date of expense recognition in the general ledger may not correspond with the actual date or period of the expense.

Disbursement recommendations

■ Recommendations:

1. LURA should consider causing periodic reviews to be performed on a go forward basis to review for potential errors in the books and records of the Metro District which may result in inaccurate coding, expenses being recognized in the incorrect period, expense approvals not occurring or being properly documented or other exceptions which may be found through these procedures.
2. LURA should consider coordinating with Pinnacle Consulting to determine the root cause of these errors and establish how procedures can be put in place to prevent similar errors going forward, including providing updates on how errors may have impacted prior reporting to LURA.
3. Along with the Metro District board, the LURA board should consider whether a month-end close process would be beneficial.
4. LURA should consider recommending that the Metro District report unaudited financials on a quarterly basis to LURA, if this is not already a requirement.

Related Party Transactions

Related party transactions observations

- Transactions with related parties are at risk of not being entered into on an “arms-length” basis, presenting risk that the terms (price, interest rates, etc.) with the related party may not be fair, transparent, or in the best interest of the Metro District, LURA and the taxpayers.
- The Metro District entered into transactions (contracts for goods/services and financial loans) with related parties; including, McWhinney Real Estate Service, Inc., Centerra Properties West, and Centerra Retail Sales Fee Corporation, among others.
- During our analysis, we observed:
 - Metro District board members submitted conflict of interest disclosures to the Colorado Secretary of State prior to board meetings and disclosed their employment with MRES and financial investments in developments located within the Metro District, and we understand no board member recused themselves from related voting matters since the MFA’s inception.
 - We understand that the Metro District does not prepare and maintain a formal evaluation of the arms-length nature of transactions and contracts with related parties to document that the terms are comparable or better than the terms with an unrelated vendor and are therefore in the best interest of the Metro District, LURA, and the taxpayers.

Related party transactions example #1

- Metro District board members submitted conflict of interest disclosures to the Colorado Secretary of State prior to board meetings.
- As part of the disclosures, board members listed their employment with MRES and financial investments in developments located within the Metro District.
- Board minutes indicate that the presence of specific board members was required to achieve quorum, which may have influenced their continued participation in votes involving disclosed interests.
- Payments to MRES have totaled \$4.9 million since 2009 for services including project management, park management, landscaping, event programming, maintenance, marketing, engineering and surveying

CENTERRA METROPOLITAN DISTRICTS NOS. 1-5

NOTICE AND AGENDA OF COORDINATED REGULAR MEETING

<u>Board of Directors</u>	<u>Office</u>	<u>Term Expiration</u>
Kim Perry	President	May 2018
Tom Hall	Secretary	May 2020
Josh Kane	Treasurer & Assistant Secretary	May 2018
David Crowder	Assistant Secretary & Assistant Treasurer	May 2018
VACANT		May 2020

DATE: January 19, 2017 (Thursday)
TIME: 12:00 P.M.
PLACE: 2725 Rocky Mountain Ave.
Loveland, Colorado 80538

CONFLICT OF INTEREST DISCLOSURE

Alan Pogue, legal counsel, stated that notices of potential conflicts of interest for all Board Members were filed with the Colorado Secretary of State's Office, disclosing potential conflicts as all Board Members are employees of McWhinney Real Estate Services, Inc., which is associated with the primary landowners and developer within the Districts. Mr. Pogue advised the Boards that pursuant to Colorado law, certain disclosures by the Board Members might be required prior to taking official action at a meeting. The Boards reviewed the agenda for the meeting, following which each Board Member present confirmed the contents of the written disclosures previously made stating the fact and summary nature of any matters as required under Colorado law to permit official action to be taken at the meeting. Additionally, the Boards determined that the participation of the members present was necessary to obtain a quorum or otherwise enable the Boards to act.

Related party transactions example #2

- As an example of related party transaction identified during our analysis:
 - The District purchased water rights for irrigation to support landscaping at developments throughout the Metro District.
 - These water rights transferred from various entities related to CPW and MRES.
 - At the time of these purchases, the District did not document an analysis of the prevailing market prices.
 - Per our discussion with Mr. Pogue, we understand the price paid by the Metro District for these water rights was below the then current market value.

EXHIBIT A			
DESCRIPTION OF TAPS TO BE TRANSFERRED TO THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 1			
TAP OWNER	LOCATION OF TAP	LITTLE THOMPSON WATER DISTRICT TAP #	SIZE
McWhinney Holding Company, LLLP	Boyd Lake Ave, former Brent House 1853 Boyd Lake Ave	695	5/8"
Centerra Properties West, LLC	Former Thrifty Apartments 4503 E Eisenhower Blvd	807	5/8"
C R Development, Inc.	Former Frank Shop Building 2706 N Boyd Lake Ave	798	5/8"
Iron Horse, LLC	Bar Lazy S House 1142 N. CR 3	297	5/8"
C R Development, Inc.	4265 Larimer CR 24 Loveland	127	5/8"
McWhinney Holding Company, LLLP	4470 Weld County Road 44 Berthoud	4086	5/8"

This Purchase Order is made and entered into this **26th day of December, 2023**, by and between **CENTERRA METROPOLITAN DISTRICT NO. 1** (the "District"), and **MWATER DEVELOPMENT, LLC** ("Seller"), collectively, the "Parties." Unless otherwise defined herein, all capitalized terms shall have the meaning given to them in the Agreement

1. Purchase. The Water Credits to be purchased from Seller pursuant to the terms of the Agreement and this Purchase Order are as follows:

Related party transactions recommendations

- Recommendations:
 - LURA should consider requesting that the Metro District to formalize processes to evaluate and report to LURA on transactions and contracts with related parties. Such formalized processes may include:
 - An evaluation and determination of the “arms-length” nature of transactions with related parties,
 - Documentation that such transactions are in the best interest of the Metro District, LURA and the taxpayers,
 - That the evaluations be provided to the Metro District board when approving transactions with related parties
 - That such evaluations be documented and maintained by the Metro District and available for LURA’s review upon request, and
 - That the Metro District provide periodic reports to LURA including details of transactions with related parties.

Next steps

- Prepare and provide report
 - Scope and procedures performed
 - Observations and findings from Phase I work
 - Areas for potential further assessment, inclusive of expected time and costs