

SWEETGRASS METROPOLITAN DISTRICT NO. 1
Dacono, Colorado

FINANCIAL STATEMENTS
December 31, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sweetgrass Metropolitan District No. 1
Dacono, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Sweetgrass Metropolitan District No. 1, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' 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 auditors' 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 the major fund of Sweetgrass Metropolitan District No. 1 as of December 31, 2014, and the respective changes in financial position 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 18 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 omitted the management's discussion and analysis that 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 opinions on the basic financial statements are not affected by this missing information.

Other Information

The secondary market financial information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
April 23, 2015

BASIC FINANCIAL STATEMENTS

SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2014

	Governmental Activities
ASSETS	
Cash and investments	\$ 466,160
Property tax receivable	2,512
Due from other governments	7
Construction in progress	814,376
TOTAL ASSETS	1,283,055
LIABILITIES	
Current liabilities due in less than one year:	
Accounts payable and retainage payable	120,160
Bond anticipation notes	1,674,961
Accrued interest payable	209,503
Noncurrent liabilities due in more than one year:	
Developer advances	1,108,587
TOTAL LIABILITIES	3,113,211
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	2,512
TOTAL DEFERRED INFLOWS OF RESOURCES	2,512
NET POSITION	
Restricted for:	
Emergencies	75
Unrestricted (deficit)	(1,832,743)
TOTAL NET POSITION	\$ (1,832,668)

The accompanying notes are an integral part of the financial statements.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Governmental Activities</u>
Governmental activities:			
General government	\$ 62,922	\$ -	\$ (62,922)
Interest and related costs on long-term debt	150,560	-	(150,560)
	<u>\$ 213,482</u>	<u>\$ -</u>	<u>(213,482)</u>
General revenues:			
Property taxes			999
Specific ownership taxes			84
Net investment income			1,418
Intergovernmental revenue - Districts No. 2 and No. 3			<u>270,544</u>
Total general revenues			<u>273,045</u>
Change in net position			59,563
Net position - Beginning of year			<u>(1,892,231)</u>
Net position - End of year			<u>\$ (1,832,668)</u>

The accompanying notes are an integral part of the financial statements.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2014**

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 466,160
Property Tax Receivable	2,512
Due from other governments	<u>7</u>
Total assets	<u>\$ 468,679</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts payable and retainage payable	<u>\$ 120,160</u>
Total liabilities	<u>120,160</u>
 DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	
Total deferred inflows of resources	<u>2,512</u>
 FUND BALANCE	
Fund balance	
Restricted for emergencies	75
Restricted for capital projects	464,666
Unassigned	<u>(118,734)</u>
Total fund balance	<u>346,007</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
	<u>\$ 468,679</u>

The accompanying notes are an integral part of the financial statements.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
December 31, 2014**

Total fund balance - Total governmental fund	<u>\$ 346,007</u>
 Amounts reported for governmental activities in the statement of net position are different because:	
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund balance sheet:	
Capital assets, not being depreciated	<u>814,376</u>
 Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet:	
Bond anticipation notes payable	(1,674,961)
Developer advances	(1,108,587)
Accrued interest payable	<u>(209,503)</u>
	<u>(2,993,051)</u>
 Net position of governmental activities	 <u>\$ (1,832,668)</u>

The accompanying notes are an integral part of the financial statements.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
Year Ended December 31, 2014**

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 999
Specific ownership taxes	84
Net investment income	1,418
Intergovernmental - Sweetgrass Metropolitan District No. 2 & No. 3	<u>270,544</u>
Total revenues	<u>273,045</u>
EXPENDITURES	
Current	
Treasurer and Director Fees	215
Accounting	12,642
Audit	2,300
Insurance	2,552
Legal	16,366
Other	10,793
Intergovernmental - Sweetgrass Metropolitan Districts No. 2 and No. 3	18,054
Debt Service	
Interest	200,000
Capital outlay	<u>684,899</u>
Total expenditures	<u>947,821</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(674,776)</u>
OTHER FINANCING SOURCES	
Developer Advance	<u>998,587</u>
Total other financing sources	<u>998,587</u>
NET CHANGE IN FUND BALANCES	323,811
FUND BALANCE - BEGINNING OF YEAR	<u>22,196</u>
FUND BALANCE - END OF YEAR	<u>\$ 346,007</u>

The accompanying notes are an integral part of the financial statements.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2014**

Net change in fund balance - Total governmental fund \$ 323,811

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

Governmental funds report capital outlays as expenditures. However, for government activities, those capital outlays other than noncapitalizable items are shown in the statement of activities at cost.

Capital outlay 684,899

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

Proceeds from developer advances (998,587)

The change in accrued interest expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.

49,440

Change in net position of governmental activities \$ 59,563

The accompanying notes are an integral part of the financial statements.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - DEFINITION OF REPORTING ENTITY

Sweetgrass Metropolitan District No. 1 (District) is a quasi-municipal corporation located within the city limits of the City of Dacono (Dacono), Colorado created by election in November 2001. The District and Dacono have entered into an Intergovernmental Agreement as required by the Dacono Code, which implemented the District Service Plan and limited certain District statutory powers. The District is governed pursuant to provisions of the Colorado Special District Act to finance construction, operation and maintenance of the facilities located within the Sweetgrass Metropolitan Districts No. 1, No. 2, and No. 3.

The District was organized concurrently with Sweetgrass Metropolitan District No. 2 (District No. 2) and Sweetgrass Metropolitan District No. 3 (District No. 3). The District has the power to provide water, sanitation, storm drainage, streets, traffic and safety controls, and park and recreation improvements and other related improvements for the benefit of taxpayers and service users within the Districts' boundaries. The Service Plan requires the District to convey the constructed improvements to the City of Dacono for ownership and maintenance.

Sweetgrass Metropolitan District No. 1 is intended to serve as the "operating district" while Sweetgrass Metropolitan Districts No. 2 and No. 3 are intended to serve as the "financing districts". The operating district is responsible for providing the day-to-day operations and administrative management of all three of the Districts. The operating district is economically dependent on developer advances and in future years will be economically dependent upon intergovernmental revenue received from the financing districts.

The District has no employees and all services are contracted.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity, including District No. 2, District No. 3, and Dacono.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of net position reports all financial resources of the District. The difference between the assets, liabilities and deferred outflows and inflows of resources of the District is reported as a net position.

The District is responsible for the repayment of bonds issued for the purpose of constructing infrastructure improvements, which will be conveyed to Dacono. The funds generated through the issuance of the bonds have been transferred from District No. 2 to District No. 1 for that purpose. Consequently, a deficit balance is reflected on the District's Statement of Net Position.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The District reports the following major governmental fund:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The adopted budgets for the General Fund, Capital Projects Fund and Debt Service Fund have been consolidated and reflected as the General Fund budget for financial reporting purposes. During 2014, the Board of Directors approved a supplemental appropriation of \$536,989.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally, sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes are recorded initially as deferred inflows of resources in the year they are levied and measurable. The property tax revenue is recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets consist entirely of construction projects in process that will be conveyed to the City of Dacono once completed. Therefore, no depreciation is calculated on these assets. Interest incurred during construction is not capitalized.

Fund Balance

As of December 31, 2014, fund balances of governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are not spendable in form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed – amounts that are subject to a purpose constraint imposed by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified or rescinded only through resolutions approved by the Board.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned – amounts that are subject to a purpose constraint that represents an intended use established by the District in its budget process. The purpose of the assignment must be narrower than the purpose of the General Fund.

Unassigned – represents the residual classification for the District's General Fund and could report a surplus or deficit.

Restricted Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 10). \$75 of the General Fund balance has been restricted in compliance with this requirement.

The District has a balance of \$464,666 in cash held in escrow, which is considered restricted fund balance for capital outlay payments.

The District's order of fund balance spending policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The District reserves the right to selectively spend unassigned fund balance.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2014 consist of the following:

Cash deposits	\$ 1,488
Cash held in escrow	464,666
Investments	<u>6</u>
	<u>\$ 466,160</u>

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District's cash deposits were covered under PDPA and not subject to custodial credit risk. At December 31, 2014, the District's cash deposits had a carrying balance of \$466,154.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Investments

The District has not adopted a formal investment policy; however, it follows state statutes regarding investments. The District also follows investment policies in bond or note agreements when those agreements are more restrictive than state statutes. The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less depending on the specific investment held unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Revenue bonds of U.S. local government securities, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

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

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

As of December 31, 2014, the District had the following investments:

Investment	Maturity	Fair Value
*Colorado Surplus Asset Fund Trust	Less than one year	<u>\$ 6</u>

Colorado Surplus Asset Trust Fund

As of December 31, 2014, the District had invested \$6 in the Colorado Surplus Asset Fund Trust, an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAAM by Standard & Poor's.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 - CONSTRUCTION IN PROCESS

An analysis of the changes in construction in progress for the year ended December 31, 2014 follows:

<u>By Classification</u>	<u>Balance at January 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2014</u>
Construction in progress	\$ 129,477	\$ 684,899	\$ -	\$ 814,376

It is the policy of the City of Dacono to accept the maintenance responsibility for water, sanitation, traffic and safety controls, park and recreation improvements (except for a pool and associated landscaping), mosquito and pest control, transportation and other related improvements within Dacono only after a probationary period following completion of construction. When the improvements enter the probationary period, the District removes the cost of construction from its Statement of Net Position.

NOTE 5 - RELATED PARTY

Two of the three members of the Board of Directors are employees or are associated with Bellock Construction Company, construction manager and accountants for the District, Dacono Properties LLC, the developer within the District and Sweetgrass Investors, LLC, holders of some of the District's outstanding debt. During 2014, Districts No. 1, No. 2 and No. 3 had the same Board of Directors (see Note 8).

Construction Management Agreement

A construction management agreement was entered into during 2004 between the District and Bellock Construction Company. The agreement calls for Bellock Construction Company to provide management services for all activities related to construction projects to be completed within Sweetgrass Metropolitan Districts No. 1 and No. 2. The agreement expires on December 31 of each year, but is automatically extended for a successive annual period so long as sufficient funds have been appropriated, unless contrary action is taken.

Amounts paid to Bellock Construction Company during 2014 for construction and construction management were \$21,791 and \$40,725, respectively.

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company on March 25, 2004. Under this agreement, accounting services are provided to both District No. 1 and District No. 2 at the hourly rates of Bellock Construction Company employees. During 2014, the District incurred accounting services fees in the amount of \$12,642.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 - LONG-TERM OBLIGATIONS

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014	Due Within One Year
Developer advances	\$ -	\$ 998,587	\$ -	\$ 998,587	\$ -
Landowner advance	110,000	-	-	110,000	-
Dacono Properties, LLC					
2005 Bond Anticipation Notes	1,052,411	-	-	1,052,411	1,052,411
Sweetgrass Investors, LLC					
2005 Bond Anticipation Notes	622,550	-	-	622,550	622,550
Accrued interest	258,943	150,560	200,000	209,503	209,503
	<u>\$ 2,043,904</u>	<u>\$ 1,149,147</u>	<u>\$ 200,000</u>	<u>\$ 2,993,051</u>	<u>\$ 1,884,464</u>

The District's service plan limits its debt service mill levy to 50 mills.

Bond Anticipation Notes - Dacono Properties LLC. In December 2005, the District issued a subordinate note to Dacono Properties LLC for amounts previously advanced to the District by Dacono Properties LLC for Capital Costs. The note was authorized to be issued at \$2,914,273; however, the total advances from the developer were \$2,819,579. The Bond Anticipation Note shall incur interest payable on April 1, July 1, October 1, and January 1, starting on April 1, 2006 at an interest rate of 8.5% per annum. On December 15, 2010, the District amended the terms of the Note to extend the maturity date. The outstanding principal balance at the date of amendment was \$1,052,411. Interest will accrue according to the original terms of the agreement as stated above. During 2014, the District incurred \$97,610 in interest expense related to the Note. In August 2014, the District paid \$200,000 in accrued interest. In accordance with the terms of the note agreement, the mill levy may not exceed 50 mills for repayment of the note. The repayment of the Bond Anticipation is subordinate in all respects to repayment of any outstanding Senior Notes or Senior Debt of the District. The repayment of the Bond Anticipation Notes principal and accrued interest is payable in immediately available funds upon presentation and surrender of this Note at its maturity, December 14, 2015.

Bond Anticipation Note - Sweetgrass Investors LLC. In December 2005, the District issued a subordinate note in aggregate principal amount of \$498,851 to be issued to Sweetgrass Investors, LLC for an amount previously advanced to the District by Sweetgrass Investors, LLC for Capital Costs. The note was authorized to be issued at \$498,851; however, the total advances from the developer were at \$482,339. The Bond Anticipation Note shall incur interest payable on April 1, July 1, October 1, and January 1, starting on April 1, 2006 at an interest rate of 8.5% per annum. On December 15, 2010, the District amended the 2005 Bond Anticipation Note, at which time the total outstanding interest of \$140,211 was added to the principal balance. The new principal balance is \$622,550 with interest accruing according to the original terms of the agreement. The maturity date of the amended Note is December 14, 2015. During 2014, the District incurred \$52,950 in interest expense related to the bond anticipation notes. In accordance with the terms of the note agreement, the mill levy may not exceed 50 mills for repayment of the note. The repayment of the Bond Anticipation is subordinate in all respects to repayment of any outstanding Senior Notes or Senior Debt of the District. The repayment of the Bond Anticipation Notes principal and accrued interest is payable in immediately available funds upon presentation and surrender of this Note at its maturity, December 14, 2015.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 - LONG-TERM OBLIGATIONS (CONTINUED)

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

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Sweetgrass Investors				
	12/15/2015	\$ 622,550	\$ 244,854	\$ 867,404
Dacono Properties				
	12/15/2015	<u>1,052,411</u>	<u>96,679</u>	<u>1,149,090</u>
		<u>\$ 1,674,961</u>	<u>\$ 341,533</u>	<u>\$ 2,016,494</u>

Landowner and Developer Advances. During 2005, the District entered into the 2005 restated loan agreement for capital costs with Sweetgrass Investors, LLC, the Landowner and Dacono Properties, LLC, the Developer. The Developer agreed to advance the District up to \$14,600,000 for eligible costs as defined by the Districts. Most of the advances made during 2005 were subsequently repaid with the issuance of bond anticipation notes (see above). The existing landowner and developer advances are carried at no interest. As of January 1, 2010, Developer Advances will carry interest at 0% per annum. The repayment of the advances are subordinate to the repayment of the 2005 Bond Anticipation Notes.

Debt Authorization

The District voters approved \$164,000,000 of revenue obligation debt in 2005 at an interest rate not to exceed 18% per annum. At December 31, 2014, the District had \$161,250,000 in authorized but unissued debt. In the future, the District may issue a portion 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. The District's current service plan limits its combined debt obligations to \$41,690,000.

NOTE 7 - INTERGOVERNMENTAL REVENUE/EXPENDITURE

The following intergovernmental revenue and expenses occurred during fiscal year end December 31, 2014:

	<u>Sweetgrass Metropolitan District No. 1</u>	<u>Sweetgrass Metropolitan District No. 2</u>	<u>Sweetgrass Metropolitan District No. 3</u>	<u>Total Revenues</u>
Sweetgrass Metropolitan District No. 1	\$ -	\$ 267,561	\$ 2,983	\$ 270,544
Sweetgrass Metropolitan District No. 2	14,080	-	55,000	69,080
Sweetgrass Metropolitan District No. 3	3,974	-	-	3,974
Total expenditures	<u>\$ 18,054</u>	<u>\$ 267,561</u>	<u>\$ 57,983</u>	<u>\$ 343,598</u>

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 8 - DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT (SERVICE CONTRACT) AND OTHER AGREEMENTS

District Facilities Construction and Service Agreement

In order to implement the Service Plan, the District entered into an intergovernmental agreement with Districts No. 2 and No. 3. The agreement shall remain in full force and effect until such time as each of the terms and conditions have been performed in their entirety or until the agreement is terminated by mutual written agreement by the Districts.

The District is to construct the facilities benefiting all of the Districts and transfer them to the City of Dacono. Districts No. 2 and No. 3 will, to the extent that it is to benefit, pay the capital costs and the service costs of operation and maintenance of such facilities.

Districts No. 2 and No. 3 are required to fund, on an annual basis, the amount of actual service costs that it would be capable of funding through property tax revenue plus other fee revenue as determined in the annual budget. If the District disagrees as to the amount to be paid, then Districts No. 2 and No. 3 must pay District No. 1 the amount set forth in the annual budget as long as the property tax mill rate does not exceed 50 mills.

Maintenance and Warranty of Public Improvements

In 2014, Dacono Properties, LLC (Subdivider), on behalf of the District, entered into a Subdivision Agreement with the City. As part of the agreement, the Subdivider was required to enter into an Improvement Guarantee (Guarantee) for a period of time sufficient to cover the completion of the public improvements. If the Subdivider is unable to complete the improvements, the City has the right to call upon the Guarantee. The Guarantee could be in the form of cash, certified check, or a letter of credit. The amount of the Guarantee shall be 115% of the total estimated costs including labor and material of all the public improvements to be constructed per the Subdivision Agreement. As of the date of the Subdivision Agreement, February 24, 2014, the estimate cost of the improvements for Phase I are \$1,501,729. As of December 31, 2014, the estimate to completion for the Phase I improvements is \$377,474 and the remaining balance of the Letter of Credits is \$1,501,729.

NOTE 9 - RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2014. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage during the past three years.

The District pays annual premiums to the Pool for liability and public officials liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

On November 5, 2005, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all annual District revenue without regard to any limitations under TABOR.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits, will require judicial interpretation.

NOTE 11 - NET POSITION

The District has net position consisting of two components – Restricted and unrestricted.

Restricted net position include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had \$75 restricted for emergencies.

The District had unrestricted deficit net position at December 31, 2014 of \$1,832,743. This deficit amount was the result of the District being responsible for the repayment of bonds issued for public improvements which will be conveyed to other government entities and which costs will be removed from the District's financial records.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SWEETGRASS METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 900	\$ 999	\$ 999	\$ -
Specific ownership taxes	40	70	84	14
Net investment income	-	3	1,418	1,415
Intergovernmental - Sweetgrass				
Metropolitan District No. 2 and No. 3	<u>235,000</u>	<u>312,000</u>	<u>270,544</u>	<u>(41,456)</u>
Total revenues	<u>235,940</u>	<u>313,072</u>	<u>273,045</u>	<u>(40,027)</u>
EXPENDITURES				
Current				
Treasurer and Director Fees	214	115	215	(100)
Accounting	7,000	10,137	12,642	(2,505)
Audit	2,500	2,300	2,300	-
Insurance	4,000	2,552	2,552	-
Intergovernmental - Sweetgrass				
Metropolitan Districts No. 2 and No. 3	16,500	16,625	18,054	(1,429)
Other	1,000	551	10,793	(10,242)
Legal	12,000	13,323	16,366	(3,043)
Debt Service				
Interest	50,400	275,000	200,000	75,000
Capital outlay	<u>390,000</u>	<u>700,000</u>	<u>684,899</u>	<u>15,101</u>
Total expenditures	<u>483,614</u>	<u>1,020,603</u>	<u>947,821</u>	<u>72,782</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(247,674)	(707,531)	(674,776)	32,755
OTHER FINANCING SOURCES				
Developer advances	<u>230,000</u>	<u>699,484</u>	<u>998,587</u>	<u>299,103</u>
Total other financing sources	<u>230,000</u>	<u>699,484</u>	<u>998,587</u>	<u>299,103</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(17,674)	(8,047)	323,811	331,858
FUND BALANCES - BEGINNING OF YEAR				
	<u>29,254</u>	<u>22,196</u>	<u>22,196</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 11,580</u>	<u>\$ 14,149</u>	<u>\$ 346,007</u>	<u>\$ 331,858</u>

SECONDARY MARKET FINANCIAL INFORMATION – UNAUDITED

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
HISTORY OF DISTRICT'S MILL LEVY
December 31, 2014
UNAUDITED**

<u>Levy/Collection Year</u>	<u>General Fund Mill Levy</u>	<u>Bond Fund Mill Levy</u>	<u>Total Mill Levy</u>	<u>Total Assessed Valuation</u>
2009/2010	\$ 50	0.000	50.000	\$ 4,114,240
2010/2011	50	0.000	50.000	\$ 3,844,170
2011/2012	50	0.000	50.000	\$ 4,130,710
2012/2013	50	0.000	50.000	\$ 6,412,000
2013/2014	50	0.000	50.000	\$ 6,892,739
2014/2015	50	0.000	50.000	\$ 5,842,120

Sources: <http://www.co.weld.co.us/Departments/Assessor/TaxingAuthorityInformation/index.html>
Information shown relates to the debt district, Sweetgrass Metropolitan District No. 2.
See Note 8 for further details on the agreement between District No. 1 and District No. 2.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
2014 ASSESSED VALUATION OF CLASSES OF PROPERTY IN THE DISTRICT
December 31, 2014
UNAUDITED

Class	Total Assessed Valuation	Percent of Total Assessed Valuation	"Actual" Valuation	Percent of Total "Actual" Valuation
Residential	\$ 2,755,980	46.55%	\$ 34,623,060	82.84%
Vacant	146,260	2.47%	504,352	1.21%
Commercial	40,090	0.68%	138,243	0.33%
Agricultural	7,280	0.12%	21,568	0.05%
Natural resources	2,830,470	47.81%	6,027,678	14.42%
State Assessed	62,040	1.05%	213,937	0.51%
Total	<u>\$ 5,842,120</u>	<u>98.68%</u>	<u>\$ 41,528,838</u>	<u>99.36%</u>
Exempt	\$ 77,990	1.32%	\$ 268,820	0.64%
Total Including Exempt	<u>\$ 5,920,110</u>	<u>100.00%</u>	<u>\$ 41,797,658</u>	<u>100.00%</u>

Source: Weld County Assessor's Office

Information shown relates to the debt district, Sweetgrass Metropolitan District No. 2.

See Note 8 for further details on the agreement between District No. 1 and District No. 2.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2014**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Taxes		Percent Collected to Levied
			Levied	Collected	
2010	\$ 4,114,240	50.00	\$ 205,712	\$ 205,668	99.98%
2011	\$ 3,844,170	50.00	\$ 192,209	\$ 192,209	100.00%
2012	\$ 4,130,710	50.00	\$ 206,536	\$ 206,535	100.00%
2013	\$ 6,412,000	50.00	\$ 320,600	\$ 320,267	99.90%
2014	\$ 6,892,739	50.00	\$ 344,637	\$ 344,239	99.88%
Estimated for the year ending December 31, 2015	\$ 5,842,120	50.000	\$ 292,106		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.

Information shown relates to the debt district, Sweetgrass Metropolitan District No. 2.

See Note 8 for further details on the agreement between District No. 1 and District No. 2.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
LARGEST TAXPAYERS IN THE DISTRICT
December 31, 2014
UNAUDITED**

<u>Taxpayer Name</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation (1)</u>
Kerr-McGee Oil & Gas Onshore LP	\$ 1,651,860	28.28%
Kerr-McGee Gathering LLC	1,203,610	20.60%
KB Home Colorado Inc	116,750	2.00%
Private Homeowner	22,670	0.39%
Private Homeowner	22,650	0.39%
Private Homeowner	22,620	0.39%
Private Homeowner	22,420	0.38%
Private Homeowner	22,010	0.38%
Private Homeowner	21,860	0.37%
Private Homeowner	21,670	0.37%
	<u><u>\$ 3,128,120</u></u>	<u><u>53.55%</u></u>

(1) Based on a 2014 certified assessed valuation of \$5,842,120

Source: Weld County Assessor's Office

Information shown relates to the debt district, Sweetgrass Metropolitan District No. 2.

See Note 8 for further details on the agreement between District No. 1 and District No. 2.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
OVERLAPPING MILL LEVIES BY TAXING ENTITIES
December 31, 2014
UNAUDITED**

<u>Taxing Entity</u>	<u>2014 Mill Levy</u>
Aims Junior College	6.333
Carbon Valley Park and Recreation District	6.710
Dacono, City of	26.401
Mountain View Fire	11.747
Northern Colorado Water Conservancy District	1.000
Fort Lupton School District RE-8	19.563
St. Vrain Valley Sanitation District	0.685
Weld County	<u>15.800</u>
Subtotal	88.239
Sweetgrass Metro District No. 2	<u>50.000</u>
Total	<u><u>138.239</u></u>

Source: Weld County Assessor's Office