

SWEETGRASS METROPOLITAN DISTRICT NO. 2
Dacono, Colorado

FINANCIAL STATEMENTS
December 31, 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sweetgrass Metropolitan District No. 2
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. 2, as of and for the year ended December 31, 2015, 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. 2 as of December 31, 2015, 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.



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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages III-VII and 17 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.

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
March 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis is designed to provide an analysis of the District's financial condition and operating results and to inform the reader on the District's financial issues and activities.

The Management's Discussion and Analysis (MD & A) should be read in conjunction with the District's financial statements.

Financial Highlights

- The net position of the District increased by \$59,791 in 2015 to \$(2,534,370). An overall net deficit is typical in a metropolitan district like District No. 2, which retains the related debt in the District until it is paid off and the assets are held by District No. 1.
- Actual revenue exceeded budgeted revenue by \$7,081, and budgeted expenditures were more than actual expenditures by \$2,955,087, principally due to a delay until 2016 in refinancing the 2010 Limited Tax Obligation Bonds.
- The District has only one bond issue outstanding, the Series 2010 Limited Tax General Obligation Bond, which is scheduled to be fully retired in 2040.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements, presented on pages 1-15 are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader of the District's basic financial statements a broad overview of the financial activities in a manner similar to a private sector business. The government-wide financial statements include the statement of net position and the statement of activities.

The statement of net position presents information about all of the District's assets, liabilities and deferred outflows and inflows of resources. The difference between assets, liabilities and deferred outflows and inflows of resources is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the net position of the District changed during the current fiscal year. Changes in net position are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

The government-wide financial statements consolidate governmental activities that are supported from taxes and intergovernmental revenues. Governmental activities consolidate governmental funds including the general fund. The government-wide financial statements can be found on pages 1-2.

Fund Financial Statements

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for special objectives. The District uses governmental funds to account for its activity.

Governmental funds account for essentially the same information reported in the governmental activities of the government-wide financial statements. However, unlike the government-wide statements, the governmental fund financial statements focus on near-term financial resources and fund balances. Such information may be useful in evaluating financing requirements in the near term.

Since the governmental funds and the governmental activities report information using the same functions, it is useful to compare the information presented. Because the focus of each report differs, reconciliations are provided on the fund financial statements to assist the reader in comparing the near-term requirements with the long-term needs.

All of the District's activities are reported in a single governmental fund, the general fund, which focuses on how money flows into and out of that fund and the balance left at year-end available for spending in future periods.

The District adopts an annual budget for the governmental fund. A budgetary comparison schedule for the general fund is included in the required supplementary information.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 7-15 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the District's budgetary comparisons, and other secondary market information (unaudited). Required supplementary information can be found on page 17 of this report, and secondary market information can be found on pages 19-23 of this report.

Government-wide Financial Analysis

Government-wide Net Position

The assets of the District are classified as current assets. Cash and investments and receivables are current assets. These assets are available to provide resources for the near-term operations of the District. The majority of the current assets are property taxes receivable.

Current and noncurrent liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable and accrued interest. The liquidation of current liabilities is anticipated to be either from current available resources, current assets or new resources that become available during fiscal year 2016.

Deferred inflows of property tax revenue increased by \$18,135, which is attributable to an increase in assessed valuation within the District.

The liabilities of the primary government activities exceed assets by \$2,534,370, with a deficit in unrestricted net position of \$2,538,300.

Government-wide Total Assets as compared to Total Liabilities, Deferred Inflows of Resources and Total Net Position:

| | <u>Net Position</u> | |
|-------------------------------------|-----------------------|-----------------------|
| | <u>2015</u> | <u>2014</u> |
| Assets: | | |
| Current | \$ 541,913 | \$ 461,695 |
| Total assets | <u>541,913</u> | <u>461,695</u> |
| Liabilities: | | |
| Current | 16,042 | 13,750 |
| Noncurrent | <u>2,750,000</u> | <u>2,750,000</u> |
| Total liabilities | <u>2,766,042</u> | <u>2,763,750</u> |
| Deferred inflows of resources: | | |
| Property tax revenue | <u>310,241</u> | <u>292,106</u> |
| Total deferred inflows of resources | <u>310,241</u> | <u>292,106</u> |
| Net position: | | |
| Restricted | 3,930 | 2,945 |
| Unrestricted | <u>(2,538,300)</u> | <u>(2,597,106)</u> |
| Total net position | <u>\$ (2,534,370)</u> | <u>\$ (2,594,161)</u> |

Government-wide Activities

Government activities decreased the deficit of the net position of the District by \$59,791. The details of this increase are shown in the following schedule:

The District's Changes in Net Position

| | <u>Governmental Activities</u> | |
|----------------------------------|--------------------------------|-----------------------|
| | <u>2015</u> | <u>2014</u> |
| Revenues: | | |
| General revenue: | | |
| Property taxes | \$ 292,538 | \$ 344,239 |
| Specific ownership taxes | 20,899 | 29,022 |
| Intergovernmental revenue | 14,502 | 69,080 |
| Investment income | 490 | 286 |
| Miscellaneous income | 402 | 398 |
| Total revenue | <u>328,831</u> | <u>443,025</u> |
| Expenses: | | |
| Governmental activities: | | |
| General government | <u>269,040</u> | <u>451,913</u> |
| Total expense | <u>269,040</u> | <u>451,913</u> |
| Total change in net position | 59,791 | (8,888) |
| Net position - Beginning of year | <u>(2,594,161)</u> | <u>(2,585,273)</u> |
| Net position - End of year | <u>\$ (2,534,370)</u> | <u>\$ (2,594,161)</u> |

Key elements of the increases in net position for governmental activities are as follows:

- Property tax revenue decreased \$51,701 due to the decrease in the assessed valuation of the District.
- Intergovernmental revenue decreased \$54,578 due to the District receiving less funds from Sweetgrass Metropolitan District No. 3 during 2015.
- Governmental expenses decreased \$182,873 due to the District transferring less funds to District No. 1.

Business-type activities are comprised of services that would be provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District does not have any business-type activities.

Financial Analysis of the District's Governmental Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine where there are more or fewer financial resources that can be spent in the near future. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's one governmental fund, the general fund, reported an ending fund balance of \$231,672.

The general fund is the chief operating fund of the District. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Actual expenditures of the general fund amounted to \$266,748. Total general fund balance represents 86.85% of expenditures.

General Fund Budgetary Highlights

The fund balance for the general fund increased by \$62,083 resulting in an ending fund balance of \$231,672. Actual revenue exceeded budgetary revenue by \$7,081. The excess revenue is attributed to a positive difference in transfers from District No. 1 and No. 3 of \$2,002. Actual expenditures were below Budgeted expenditures by \$2,955,087, principally due to a delay until 2016 in refinancing the 2010 Limited Tax Obligation Bonds.

Economic Factors and Next Year's Budgets and Rates

The assessed valuation of property in the District increased by \$362,690 in 2015, due to an increase in residential and vacant land valuation. It is anticipated that the mill levy will remain at 50 mill for the foreseeable future.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional information shall be addressed to:

Sweetgrass Metropolitan District No. 2
Mr. Steve Rane
2500 Arapahoe, Suite 220
Boulder, Colorado 80302

BASIC FINANCIAL STATEMENTS

SWEETGRASS METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2015

| | <u>Governmental Activities</u> |
|---|---|
| ASSETS | |
| Cash and investments | \$ 62,732 |
| Restricted cash and investments | 165,277 |
| Due from other governments | 1,411 |
| Prepaid expenses | 2,252 |
| Property taxes receivable | <u>310,241</u> |
| TOTAL ASSETS | <u>541,913</u> |
| LIABILITIES | |
| Due within the year: | |
| Accrued interest | 16,042 |
| Due in more than one year: | |
| 2010 Limited Tax General Obligation Bonds | <u>2,750,000</u> |
| TOTAL LIABILITIES | <u>2,766,042</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Property tax revenue | <u>310,241</u> |
| Total deferred inflows of resources | <u>310,241</u> |
| NET POSITION | |
| Restricted for emergencies | 3,930 |
| Unrestricted (deficit) | <u>(2,538,300)</u> |
| TOTAL NET POSITION | <u>\$ (2,534,370)</u> |

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

| Functions/Programs | Expenses | Program Revenues | Net (Expense) Revenue and Changes in Net Position |
|--|-------------------|-------------------------|--|
| | | | Governmental Activities |
| Governmental activities: | | | |
| General government | \$ 101,748 | \$ - | \$ (101,748) |
| Interest and related costs on long-term debt | 167,292 | - | (167,292) |
| | <u>\$ 269,040</u> | <u>\$ -</u> | <u>(269,040)</u> |
| General revenues: | | | |
| Property taxes | | | 292,538 |
| Specific ownership taxes | | | 20,899 |
| Intergovernmental revenue | | | 14,502 |
| Net investment income | | | 490 |
| Miscellaneous income | | | 402 |
| Total general revenues | | | <u>328,831</u> |
| Change in net position | | | 59,791 |
| Net position - Beginning of year | | | <u>(2,594,161)</u> |
| Net position - End of year | | | <u>\$ (2,534,370)</u> |

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2015**

| | General Fund |
|--|-------------------------|
| ASSETS | |
| Cash and investments | \$ 62,732 |
| Restricted cash and investments | 165,277 |
| Due from other governments | 1,411 |
| Prepaid expenses | 2,252 |
| Property taxes receivable | 310,241 |
| Total assets | \$ 541,913 |
| LIABILITIES AND FUND BALANCE | |
| DEFERRED INFLOWS OF RESOURCES | |
| Property tax revenue | \$ 310,241 |
| Total deferred inflows of resources | 310,241 |
| FUND BALANCE | |
| Non-spendable | 2,252 |
| Restricted for TABOR | 3,930 |
| Restricted for debt service | 165,277 |
| Unassigned | 60,213 |
| Total fund balance | 231,672 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | \$ 541,913 |

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
December 31, 2015**

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

| | |
|---|------------------------------|
| Total fund balance - Total governmental funds | \$ <u>231,672</u> |
| Accrued interest payable is recognized for governmental activities, but is not due and payable in the current period and, therefore, is not reported as a liability in the governmental fund. | (16,042) |
| Some liabilities, including bonds and notes payable, are not due in the current period and, therefore, are not reported in the fund balance sheet. 2010 General Obligation Bonds | <u>(2,750,000)</u> |
| Net position of governmental activities | \$ <u>(2,534,370)</u> |

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended December 31, 2015

| | General Fund |
|---|--------------------------|
| REVENUES | |
| Property taxes | \$ 292,538 |
| Specific ownership taxes | 20,899 |
| Transfer from District No. 1 | 14,502 |
| Net investment income | 490 |
| Miscellaneous income | <u>402</u> |
| Total revenues | <u>328,831</u> |
| EXPENDITURES | |
| Current | |
| Transfer to District No. 1 | 85,000 |
| County Treasurer's fees | 4,395 |
| Insurance | 2,239 |
| Audit fees | 8,150 |
| Trustee fees | 1,300 |
| Miscellaneous | 664 |
| Debt service | |
| Interest and fiscal charges | <u>165,000</u> |
| Total expenditures | <u>266,748</u> |
| REVENUES (OVER) EXPENDITURES | 62,083 |
| FUND BALANCE - BEGINNING OF YEAR | <u>169,589</u> |
| FUND BALANCE - END OF YEAR | <u><u>\$ 231,672</u></u> |

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2015**

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

| | |
|--|-------------------------|
| Net change in fund balance - Total governmental funds | \$ <u>62,083</u> |
|--|-------------------------|

| | |
|--|----------------|
| 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 the governmental fund. | <u>(2,292)</u> |
|--|----------------|

| | |
|--|--------------------------------|
| Change in net position of governmental activities | \$ <u><u>59,791</u></u> |
|--|--------------------------------|

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - DEFINITION OF REPORTING ENTITY

Sweetgrass Metropolitan District No. 2 (the District) is a quasi-municipal corporation located within the city limits of Dacono, Colorado (Dacono) 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.

Sweetgrass Metropolitan District No. 1 (District No. 1) was organized concurrently with Sweetgrass Metropolitan District No. 2 and Sweetgrass Metropolitan District No. 3 (District No. 3). District No. 1 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 District No. 1 to convey the constructed improvements to Dacono or the HOA 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. 1, District No. 3, and Dacono.

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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.

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 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 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.

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.

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 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.

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. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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.

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.

Fund Balance

As of December 31, 2015, 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. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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 9). \$3,930 of the General Fund balance has been reserved in compliance with this requirement.

The District also has \$165,277 of restricted fund balance related requirements of the bond issuance. See Note 4 for more details.

The District's order of fund balance spending policy is to apply expenditures against 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, 2015 consist of the following:

| | |
|--------------|-------------------|
| Restricted | \$ 165,277 |
| Unrestricted | <u>62,732</u> |
| | <u>\$ 228,009</u> |

Cash and investments as of December 31, 2015 consist of the following:

| | |
|-------------|-------------------|
| Investments | <u>\$ 228,009</u> |
|-------------|-------------------|

Investments

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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 securities
- . 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 reverse repurchase agreements
- . Certain money market mutual funds
- . Guaranteed investment contracts
- * Local government investment pools
- . Certain corporate bonds
- . Certain securities lending agreements

As of December 31, 2015, the District had the following investments:

| Investment | Maturity | Fair Value |
|-----------------------------------|--------------------|-------------------|
| Colorado Surplus Asset Fund Trust | Less than one year | \$ 62,732 |
| ColoTrust Plus Fund | Less than one year | <u>165,277</u> |
| | | <u>\$ 228,009</u> |

Colorado Surplus Asset Trust Fund

As of December 31, 2015, the District had invested \$62,732 in the Colorado Surplus Asset Fund Trust. The fund invests in commercial paper, collateralized bank deposits, U.S. Treasury securities, federal instrumentality securities, agency securities, repurchase agreements and money market funds. 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.

ColoTrust Plus Fund

As of December 31, 2015, the District had invested \$165,277 in the ColoTrust Plus Fund. The fund invests in commercial paper, collateralized bank deposits, U.S. Treasury securities, federal instrumentality securities, agency securities and repurchase agreements. The Fund 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. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 - LONG-TERM OBLIGATIONS

| | <u>Balance at January 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at December 31, 2015</u> | <u>Due Within One Year</u> |
|--------------------------------|---|------------------|-------------------|---|------------------------------------|
| Limited Tax General Obligation | | | | | |
| Bonds, Series 2010 | \$ 2,750,000 | \$ - | \$ - | \$ 2,750,000 | \$ - |

Limited Tax General Obligation Bonds - On November 18, 2010, the District issued \$2,750,000 of Limited Tax General Obligation Bonds. The bonds bear interest at the rates set forth below, during the specified time periods, and such interest is payable semi-annually on June 1 and December 1 commencing June 1, 2011. The District incurred \$167,292 in interest expense for the year ended December 31, 2015 for these bonds.

| | |
|--|-------|
| Date of issuance through November 30, 2015 | 6.00% |
| December 1, 2015 through November 30, 2016 | 7.00% |
| December 1, 2016 through November 30, 2040 | 8.00% |

The bonds are subject to optional and mandatory sinking fund redemptions prior to maturity at the prices and upon the terms set forth below:

Mandatory Sinking Fund Redemption. The Bonds are also subject to mandatory sinking fund redemption, in part by lot on December 1, 2021, and on each December 1 thereafter prior to the maturity date of the bonds, upon payment of par and accrued interest, in the annual amounts listed in the maturity schedule presented below.

Pledged Revenue consists of property tax revenue, specific ownership tax revenue, and any other legally available moneys that the District determines to credit to the bond. Property Tax Revenues and Specific Ownership Tax Revenues are derived from imposition of the Debt Service Mill Levy by the District, which may not exceed 40 mills. The bonds are also secured by amounts on deposit in the Reserve Fund. As of December 31, 2015, the District had \$165,277 in the Reserve Fund, as required.

The bonds were subject to the exercise of a Put Option by any Owner on December 1, 2015 and on any December 1 thereafter by the submission to the District of a written Notice of Intent to Exercise the Put Option, not later than ninety (90) days prior to December 1, 2015 or December 1 of any year thereafter. The District has covenanted to use its best efforts to provide funding of the Put Option, if exercised, but the availability of such funding cannot be guaranteed. The District has also covenanted to use its best efforts to assist the Owner or Owners who have provided notice of their desire to exercise the Put Option with finding a qualified purchaser of the bonds. If funded, the Put Option price for the bonds will be the principal amount of the bonds subject to the Put Option plus accrued interest to the date the Put Option is paid.

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's Limited Tax General Obligation Bond will mature as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|---------------------|---------------------|
| 2016 | \$ - | \$ 192,500 | \$ 192,500 |
| 2017 | - | 220,000 | 220,000 |
| 2018 | - | 220,000 | 220,000 |
| 2019 | - | 220,000 | 220,000 |
| 2020 | - | 220,000 | 220,000 |
| 2021-2025 | 350,000 | 1,048,000 | 1,398,000 |
| 2026-2030 | 520,000 | 882,800 | 1,402,800 |
| 2031-2035 | 760,000 | 639,600 | 1,399,600 |
| 2036-2040 | 1,120,000 | 282,800 | 1,402,800 |
| | <u>\$ 2,750,000</u> | <u>\$ 3,925,700</u> | <u>\$ 6,675,700</u> |

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, 2015, 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 5 - RELATED PARTY

Two members of the Board of Directors are employees or are associated with Bellock Construction Company, construction manager and accountant for the District and Dacono Properties, LLC, the developer within the District. During 2015, Districts No. 1, No. 2, and No. 3 had the same Board of Directors (see Note 6).

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company during 2002. This agreement was subsequently amended on March 25, 2004. Under this amended agreement, accounting services are provided to the District at the annual hourly rates of Bellock Construction Company employees. During 2015, the District did not incur accounting services fees.

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 6 - DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT (SERVICE CONTRACT)

In order to implement the Service Plan, District No. 1 approved an intergovernmental agreement with the District and District 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.

District No. 1 is to construct the facilities benefiting the three Districts and transfer them to Dacono or the HOA. The District and District No. 3 will, to the extent that they are to benefit, pay the capital costs and the service costs of operation and maintenance of such facilities.

The District and District No. 3 are required to fund, on an annual basis, the amount of actual service costs that each District would be capable of funding through property tax revenue plus other fee revenue as determined in the annual budget. If the Districts disagree as to the amount to be paid, then the District and District 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.

NOTE 7 - INTERGOVERNMENTAL REVENUE/EXPENDITURES

The following intergovernmental revenues and expenditures occurred during fiscal year ended December 31, 2015:

| | Sweetgrass Metropolitan District No. 1 | Sweetgrass Metropolitan District No. 2 | Sweetgrass Metropolitan District No. 3 | Total Revenues |
|--|---|---|---|---------------------------|
| Sweetgrass Metropolitan District No. 1 | \$ - | \$ 85,000 | \$ 75,000 | \$ 160,000 |
| Sweetgrass Metropolitan District No. 2 | 14,502 | - | - | 14,502 |
| Sweetgrass Metropolitan District No. 3 | 5,914 | - | - | 5,914 |
| Total Expenditures | <u>\$ 20,416</u> | <u>\$ 85,000</u> | <u>\$ 75,000</u> | <u>\$ 180,416</u> |

NOTE 8 - 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; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2015. 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 insurance coverage in the past three fiscal years.

The District pays annual premiums to the Pool for liability and public officials liability. 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. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 - 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 and qualification as an enterprise, will require judicial interpretation.

NOTE 10 – SUBSEQUENT EVENT

On December 1, 2015, the no-call provision in the 2010 Limited Tax General Obligation Bonds terminated along with a 100 bps increase in the interest rate, up to 7.0%. The current interest rate environment is considerably more favorable for the District. As such, the District is in discussions with an institutional lender to provide new financing. The anticipated loan proceeds are approximately \$4,000,000 with an interest rate of approximately 4.10%. The proceeds, after payment of loan origination costs, will be used to repay the 2010 Limited Tax General Obligation Bonds in full. Remaining proceeds will then be transferred to District No. 1, as per its obligation to do so, and used to pay accrued interest on all subordinate debt and, if any additional proceeds are still available, to repay a portion of Developer advances. The District expects to close on this new loan in the first quarter of 2016.

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

REQUIRED SUPPLEMENTARY INFORMATION

SWEETGRASS METROPOLITAN DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2015

| | Original and Final Budgeted Amounts | Actual | Variance with Final Budget Positive (Negative) |
|---|--|-------------------|---|
| REVENUES | | | |
| Property taxes | \$ 289,000 | \$ 292,538 | \$ 3,538 |
| Specific ownership taxes | 20,000 | 20,899 | 899 |
| Net investment income | 250 | 490 | 240 |
| Transfer from District No. 1 | 12,500 | 14,502 | 2,002 |
| Miscellaneous income | - | 402 | 402 |
| Total revenues | <u>321,750</u> | <u>328,831</u> | <u>7,081</u> |
| EXPENDITURES | | | |
| Current | | | |
| Transfer to District No. 1 | 240,000 | 85,000 | 155,000 |
| County Treasurer's fees | 4,335 | 4,395 | (60) |
| Audit | 10,000 | 8,150 | 1,850 |
| Insurance | 2,500 | 2,239 | 261 |
| Trustee fees | - | 1,300 | (1,300) |
| Miscellaneous | 50,000 | 664 | 49,336 |
| Debt service | | | |
| Principal | 2,750,000 | - | 2,750,000 |
| Interest and fiscal charges | 165,000 | 165,000 | - |
| Total expenditures | <u>3,221,835</u> | <u>266,748</u> | <u>2,955,087</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (2,900,085) | 62,083 | (2,962,168) |
| OTHER FINANCING SOURCES | | | |
| Proceeds from 2015 debt instrument | <u>2,800,000</u> | - | <u>2,800,000</u> |
| Total other financing sources | <u>2,800,000</u> | <u>-</u> | <u>2,800,000</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES | (100,085) | 62,083 | (162,168) |
| FUND BALANCE - BEGINNING OF YEAR | <u>106,466</u> | <u>169,589</u> | <u>(63,123)</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 6,381</u> | <u>\$ 231,672</u> | <u>\$ 225,291</u> |

SECONDARY MARKET FINANCIAL INFORMATION

SWEETGRASS METROPOLITAN DISTRICT NO. 2
2015 ASSESSED VALUATION OF CLASSES OF PROPERTY IN THE DISTRICT
December 31, 2015
UNAUDITED

| Class | Total Assessed Valuation | Percent of Total Assessed Valuation | "Actual" Valuation | Percent of Total "Actual" Valuation |
|------------------------|---|--|-------------------------------|--|
| Residential | \$ 3,512,660 | 55.73% | \$ 44,136,698 | 85.97% |
| Vacant | 460,460 | 7.30% | 1,587,772 | 3.09% |
| Commercial | 10,240 | 0.16% | 35,341 | 0.07% |
| Industrial | 40,070 | 0.64% | 138,188 | 0.27% |
| Agricultural | 8,110 | 0.13% | 27,924 | 0.05% |
| Natural resources | 1,975,920 | 31.35% | 4,394,619 | 8.56% |
| State assessed | 197,350 | 3.13% | 680,523 | 1.33% |
| Total | <u>6,204,810</u> | <u>98.44%</u> | <u>51,001,065</u> | <u>99.34%</u> |
| Exempt | <u>98,590</u> | <u>1.56%</u> | <u>339,875</u> | <u>0.66%</u> |
| Total Including exempt | <u><u>\$ 6,303,400</u></u> | <u><u>100.00%</u></u> | <u><u>\$ 51,340,940</u></u> | <u><u>100.00%</u></u> |

Source: Weld County Assessor's Office

SWEETGRASS METROPOLITAN DISTRICT NO. 2
TEN LARGEST TAXPAYERS IN THE DISTRICT
December 31, 2015
UNAUDITED

| <u>Taxpayer Name</u> | <u>Assessed Valuation</u> | <u>Percentage of Total Assessed Valuation (1)</u> |
|----------------------------------|--------------------------------------|--|
| Kerr-McGee Oil & Gas Onshore LP | \$ 1,073,040 | 17.29% |
| Kerr-McGee Gathering LLC | 931,200 | 15.01% |
| KB Home Colorado Inc. | 422,510 | 6.81% |
| Kerr-McGee Gathering LLC | 149,680 | 2.41% |
| Public Service Co of Colo (Xcel) | 47,670 | 0.77% |
| Private Homeowner | 28,390 | 0.46% |
| Private Homeowner | 27,480 | 0.44% |
| Private Homeowner | 27,380 | 0.44% |
| Private Homeowner | 27,260 | 0.44% |
| Private Homeowner | 27,020 | 0.44% |
| | <u>\$ 2,761,630</u> | <u>44.51%</u> |

(1) Based on a 2015 certified assessed valuation of \$6,204,810

Source: Weld County Assessor's Office

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
OVERLAPPING MILL LEVIES BY TAXING ENTITIES
December 31, 2015
UNAUDITED**

| <u>Taxing Entity</u> | <u>2015 Mill Levy</u> |
|--|---------------------------|
| Aims Junior College | 6.325 |
| Carbon Valley Park and Recreation District | 6.794 |
| Dacono, City of | 24.694 |
| Mountain View Fire | 11.747 |
| Northern Colorado Water Conservancy District | 1.000 |
| Fort Lupton School District RE-8 | 15.755 |
| St. Vrain Valley Sanitation District | 0.585 |
| Weld County | <u>15.800</u> |
| Subtotal | 82.700 |
| Sweetgrass Metro District No. 2 | <u>50.000</u> |
| Total | <u><u>132.700</u></u> |

Source: Weld County Assessor's Office

SWEETGRASS METROPOLITAN DISTRICT NO. 2
HISTORY OF DISTRICT'S MILL LEVY
December 31, 2015
UNAUDITED

| Levy/Collection Year | General Fund Mill Levy | Bond Fund Mill Levy | Total Mill Levy | Total Assessed Valuation |
|-----------------------------|---|--|--------------------------------|---|
| 2010/2011 | 10.000 | 40.000 | 50.000 | \$ 3,844,170 |
| 2011/2012 | 10.000 | 40.000 | 50.000 | \$ 4,130,710 |
| 2012/2013 | 10.000 | 40.000 | 50.000 | \$ 6,412,000 |
| 2013/2014 | 10.000 | 40.000 | 50.000 | \$ 6,892,739 |
| 2014/2015 | 21.757 | 28.243 | 50.000 | \$ 5,842,120 |
| 2015/2016 | 18.976 | 31.024 | 50.000 | \$ 6,204,810 |

Sources: <http://www.co.weld.co.us/Departments/Assessor/TaxingAuthorityInformation/index.html>

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2015**

| 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 | |
| 2011 | \$ 3,844,170 | 50.000 | \$ 192,209 | \$ 205,668 | 107.00% |
| 2012 | \$ 4,130,710 | 50.000 | \$ 206,536 | \$ 192,209 | 93.06% |
| 2013 | \$ 6,412,000 | 50.000 | \$ 320,600 | \$ 206,535 | 64.42% |
| 2014 | \$ 6,892,739 | 50.000 | \$ 344,637 | \$ 344,239 | 99.88% |
| 2015 | \$ 5,842,120 | 50.000 | \$ 292,106 | \$ 292,538 | 100.15% |
| Estimated for the year ending December 31, 2016 | \$ 6,204,810 | 50.000 | \$ 310,241 | | |

SOURCE: Weld County Assessor's Office

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.