# SWEETGRASS METROPOLITAN DISTRICT NO. 2

## FINANCIAL STATEMENTS AND
## SUPPLEMENTARY INFORMATION

## YEAR ENDED DECEMBER 31, 2022

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**YEAR ENDED DECEMBER 31, 2022**

# INDEPENDENT AUDITORS' REPORT

Board of Directors
Sweetgrass Metropolitan District No. 2
Dacono, Colorado

## Report on the Audit of the Financial Statements

### *Opinions*

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, 2022, and the related notes to the financial statements, which collectively comprise Sweetgrass Metropolitan District No. 2's basic financial statements as listed in the table of contents.

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, 2022, 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.

### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sweetgrass Metropolitan District No. 2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sweetgrass Metropolitan District No. 2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditors' Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sweetgrass Metropolitan District No. 2's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sweetgrass Metropolitan District No. 2's ability to continue as a going concern for a reasonable period of time.

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

Board of Directors
Sweetgrass Metropolitan District No. 2

***Required Supplementary Information***

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

**CliftonLarsonAllen LLP**

Broomfield, Colorado
May 5, 2023

# SWEETGRASS METROPOLITAN DISTRICT NO. 2
# STATEMENT OF NET POSITION
# DECEMBER 31, 2022

| | | Governmental Activities |
|---|---|---|
| **ASSETS** | | |
| Unrestricted Cash and Investments | $ | 279,603 |
| Restricted Cash and Investments | | 198,079 |
| Due from Other Governments | | 2,760 |
| Prepaid Items | | 235,557 |
| Property Tax Receivable | | 675,765 |
| Total Assets | | 1,391,764 |
| | | |
| **LIABILITIES** | | |
| Due Within the Year: | | |
| Series 2022 Bonds | | 120,000 |
| Due in More Than One Year: | | |
| Developer Advances | | 1,359,492 |
| Series 2022 Bonds | | 8,985,000 |
| Bond Premium | | 40,380 |
| Accrued Interest | | 138,745 |
| Total Liabilities | | 10,643,617 |
| | | |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Property Tax Revenue | | 675,765 |
| Total Deferred Inflows of Resources | | 675,765 |
| | | |
| **NET POSITION** | | |
| Restricted for TABOR | | 5,422 |
| Unrestricted | | (9,933,040) |
| | | |
| Total Net Position | $ | (9,927,618) |

*See accompanying Notes to Financial Statements.*

# SWEETGRASS METROPOLITAN DISTRICT NO. 2
# STATEMENT OF ACTIVITIES
# YEAR ENDED DECEMBER 31, 2022

| | Expenses | Program Revenue<br>Charges for Services | Net Revenue (Expense) and Change in Net Position<br>Governmental Activities |
|---|---|---|---|
| **FUNCTIONS/PROGRAMS** | | | |
| Governmental Activities: | | | |
| General Government | $ 214,145 | $ - | $ (214,145) |
| Interest and Related Costs on Long-Term Debt | 1,156,777 | - | (1,156,777) |
| | $ 1,370,922 | $ - | (1,370,922) |
| **General Revenues** | | | |
| Property Taxes | | | 653,042 |
| Specific Ownership Taxes | | | 38,635 |
| Intergovernmental Revenue | | | 4,551,267 |
| Net Investment Income | | | 7,115 |
| Total General Revenues | | | 5,250,059 |
| **Change in Net Position** | | | 3,879,137 |
| Net Position - Beginning of Year | | | (13,806,755) |
| **Net Position - End of Year** | | | $ (9,927,618) |

*See accompanying Notes to Basic Financial Statements.*

**SWEETGRASS METROPOLITAN DISTRICT NO. 2**
**BALANCE SHEET**
**DECEMBER 31, 2022**

| | | General Fund |
|---|---|---|
| **ASSETS** | | |
| Unrestricted Cash and Investments | $ | 279,603 |
| Restricted Cash and Investments | | 198,079 |
| Due from Other Governments | | 2,760 |
| Prepaid Items | | 11,263 |
| Property Tax Receivable | | 675,765 |
| Total Assets | $ | 1,167,470 |
| **DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE** | | |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Property Tax Revenue | $ | 675,765 |
| Total Deferred Inflows of Resources | | 675,765 |
| **FUND BALANCE** | | |
| Nonspendable for Prepaid Items | | 11,263 |
| Restricted for TABOR | | 5,422 |
| Restricted for Debt Service | | 198,079 |
| Unassigned | | 276,941 |
| Total Fund Balance | | 491,705 |
| Total Deferred Inflows of Resources and Fund Balance | $ | 1,167,470 |

*See accompanying Notes to Basic Financial Statements.*

# SWEETGRASS METROPOLITAN DISTRICT NO. 2
# RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
# DECEMBER 31, 2022

| | | |
|---|---|---|
| Total Fund Balance - Total Governmental Fund | $ | 491,705 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Prepaid municipal bond insurance is recognized as an asset for governmental activities that is amortized over the life of the related debt. | | 224,294 |
| Accrued interest payable is recognized for governmental activities, therefore, is not reported as a liability in the governmental fund. | | (138,745) |
| Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet. | | |
| Developer Advances | | (1,359,492) |
| 2022A Series General Obligation Limited Tax Refunding Bonds | | (7,930,000) |
| 2022A Series General Obligation Limited Tax Refunding Bonds Premium | | (40,380) |
| 2022B Series General Obligation Limited Tax Refunding Bonds | | (1,175,000) |
| | | (10,504,872) |
| Net Position of Governmental Activities | $ | (9,927,618) |

*See accompanying Notes to Basic Financial Statements.*

**SWEETGRASS METROPOLITAN DISTRICT NO. 2**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND**
**YEAR ENDED DECEMBER 31, 2022**

| | General Fund |
|---|---|
| **REVENUES** | |
| Property Taxes | $ 653,042 |
| Specific Ownership Taxes | 38,635 |
| Net Investment Income | 7,115 |
| Intergovernmental - Metro District No. 1 | 4,551,267 |
| Total Revenues | 5,250,059 |
| | |
| **EXPENDITURES** | |
| Current: | |
| Intergovernmental - Metro District No. 1 | 155,000 |
| County Treasurer's Fees | 9,793 |
| Audit | 9,870 |
| Accounting | 33,481 |
| Insurance | 2,069 |
| Trustee Fees | 2,000 |
| Miscellaneous | 1,932 |
| Debt Service: | |
| Principal | 13,565,748 |
| Interest and Fiscal Charges | 1,255,485 |
| Closing Costs | 473,015 |
| Bond Insurance | 232,921 |
| Prepayment Penalty | 96,090 |
| Total Expenditures | 15,837,404 |
| | |
| **DEFICIENCY OF REVENUES UNDER EXPENDITURES** | (10,587,345) |
| | |
| **OTHER FINANCING SOURCES** | |
| Proceeds from Debt Instrument | 10,876,058 |
| Total Other Financing Sources | 10,876,058 |
| | |
| **NET CHANGES IN FUND BALANCE** | 288,713 |
| | |
| Fund Balance - Beginning of Year | 202,992 |
| | |
| **FUND BALANCE - END OF YEAR** | $ 491,705 |

*See accompanying Notes to Basic Financial Statements.*

**SWEETGRASS METROPOLITAN DISTRICT NO. 2**
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**
**YEAR ENDED DECEMBER 31, 2022**

| | |
|---|---|
| Net Change in Fund Balance - Total Governmental Fund | $ 288,713 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| The issuance of long-term debt provides current financial resources to the governmental fund, 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. | |
| Debt Proceeds | (10,876,058) |
| Payment of Principal | 13,565,748 |
| Governmental fund reports prepaid municipal bond insurance as expenditures. However, for government activities, the prepaid municipal bond insurance is shown in the statement of net position as a prepaid expense. | 232,921 |
| The prepaid municipal bond insurance costs are amortized over the life of the bonds. Current year amortization of the prepaid municipal bond insurance of $8,627 is reported as an expense on the statement of activities. | (8,627) |
| The change in accrued interest and nonuse fees does not have any impact on governmental fund expenditures. This transaction, however, does increase the amount of interest expense and nonuse fees on the statement of activities. | |
| Accrued Interest | 675,254 |
| The premium on the issuance of bonds is amortized over the life of the bonds. Current year amortization of the premium on bonds of $1,186 is reported as a reduction of interest expense on the statement of activities. | 1,186 |
| Change in Net Position of Governmental Activities | $ 3,879,137 |

*See accompanying Notes to Basic Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 homeowners association (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 upon intergovernmental revenue received from the financing districts.

The Service Plan has been replaced by the Amended and Restated Consolidated Service Plan, dated November 19, 2021 and approved by Dacono on November 22, 2021 (the Amended and Restated Service Plan). The Amended and Restated Service Plan provides for the District to have a new debt limit of $11,500,000. In addition, the District plans to exclude a portion of property currently within its boundaries and include that property in District No. 2.

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.

## 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 or the HOA. 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, including nonuse fees, are recorded only when payment is due.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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.

### Budgets

In accordance with the State Budget Law, the District's Board of Directors (the Board) 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 and Debt Service fund have been consolidated and reflected as the General Fund Budget for financial reporting purposes.

### 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 and Net Position

Net position is reported in the governmental activities and is classified as restricted or unrestricted. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. As of December 31, 2022, fund balances of governmental funds are classified as follows:

Nonspendable – 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fund Balance and Net Position (Continued)

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.

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). $5,422 of the General Fund balance has been reserved in compliance with this requirement. 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.

Nonspendable fund balance of $11,263 is equal to the amount of prepaid insurance for the District that will benefit a future period.

The District has a balance of $198,079 which is considered restricted fund balance for debt service.

## NOTE 3 CASH AND INVESTMENTS

Cash and investments reflected on the statement of net position as of December 31, 2022 consist of the following:

| | | |
|---|---|---|
| Cash Deposits | $ | 279,603 |
| Restricted Investments | | 198,079 |
| Total Cash | $ | 477,682 |

### 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 fair value of the collateral must be at least equal to the aggregate uninsured deposits.

## NOTE 3 CASH AND INVESTMENTS (CONTINUED)

**Cash Deposits (Continued)**

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.

At December 31, 2022, the District's cash deposits had a carrying balance of $279,603.

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

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, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

## NOTE 3 CASH AND INVESTMENTS (CONTINUED)

**Investments (Continued)**

As of December 31, 2022, the District had the following investments:

| Investment | Maturity | Amortized Cost |
|---|---|---|
| *Money Market Fund - CSAFE | Less than One Year | $ 198,079 |

As of December 31, 2022, the District had $198,079 invested in CSAFE Money Market Funds. The investment is rated AAAmmf by Fitch Ratings and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

## NOTE 4 LONG-TERM OBLIGATIONS

The District's long-term obligations consist of the following for the year ended December 31, 2022:

| | Balance at January 1, 2022 | Additions | Reductions | Balance at December 31, 2022 | Due Within One Year |
|---|---|---|---|---|---|
| General Obligation: | | | | | |
| Limited Tax Notes Series 2018A | $ 9,769,000 | $ - | $ 9,769,000 | $ - | $ - |
| Subordinate Limited Tax Bond - Series 2018C | 3,426,748 | 150,000 | 3,576,748 | - | - |
| Subordinate Limited Tax Bond - Series 2022A | - | 8,150,000 | 220,000 | 7,930,000 | 120,000 |
| Subordinate Limited Tax Bond - Series 2022A Premium | - | 41,566 | 1,186 | 40,380 | - |
| Subordinate Limited Tax Bond - Series 2022B | - | 1,175,000 | - | 1,175,000 | - |
| Total General Obligation | 13,195,748 | 9,516,566 | 13,566,934 | 9,145,380 | 120,000 |
| Private Placement: | | | | | |
| Developer Advances | - | 1,359,492 | - | 1,359,492 | - |
| Total Private Placement | - | 1,359,492 | - | 1,359,492 | - |
| Total Long-Term Obligations | $ 13,195,748 | $ 10,876,058 | $ 13,566,934 | $ 10,504,872 | $ 120,000 |

**Series 2018A Note**

The District issued the 2018A Limited Tax General Obligation Note on June 29, 2018 in the amount of $10,000,000. The proceeds of such debt were used to refund all of the amounts due on the District's General Obligation Limited Tax Bonds, Series 2016; refund, pay and discharge all remaining amounts due on the Series 2005 Note in District No. 1; pay for a portion of the Public Improvements; repay or reimburse a portion of the amounts owed under the Capital Costs Agreement; and pay costs of issuance on the Note. Interest payments are due June 1 and December 1 of each year.

## NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

**Series 2018A Note (Continued)**

The District does not have optional prepayment of principal until the fifth anniversary through the sixth anniversary of the date of the Note. A prepayment fee of 1% will be added to the principal balance if prepayment occurs after the fifth anniversary but before the sixth anniversary date. No prepayment fee is incurred if prepayment occurs after the sixth anniversary date of the Note. In June of 2022, the District issued Senior and Subordinate Limited Tax Refunding Bonds Series 2022A and 2022B. The bond proceeds were used to pay off the remaining principal balance of $9,769,000 and interest balance of $173,643. The District incurred $147,012 in interest expense on the 2018A Note for the year ended December 31, 2022.

As part of the 2018A Note agreement, the District was able to issue 2018B Note by authorizing and executing the 2018B Loan Agreement in an amount not to exceed $10,000,000. The 2018B Loan was to be considered parity debt with the 2018A Note. The the 2018B Loan Agreement was executed, but unused, and was closed in January 2022.

**Series 2018C Bonds**

The District issued the 2018C Subordinate Limited Tax General Obligation Bonds on December 4, 2018 for an amount not to exceed $11,000,000. The proceeds of such debt were used for project costs and costs of issuing the Bonds. The Bonds are subordinate to the repayment of the Series 2018A and 2018B Note. The District drew down $6,252,500 of principal on the date of issuance. The Bonds are subject to redemption prior to maturity at the option of the District as well as mandatory redemption for excess funds in the Subordinate Bond Fund to be first applied to interest then principal as a whole or in denominations of $1,000. The Bonds will mature on December 1, 2048 and bear interest at a rate of 8% calculated based on a 360-day year payable solely and to the extent of Subordinate Pledged Revenue. Interest payments are due on December 15 of each year beginning on December 15, 2019.

In February 2022, there was an additional draw on the 2018C Bond for $150,000. The District incurred $129,914 in interest expense on the 2018C Bonds for the year ended December 31, 2022. On June 16, 2022, District No. 1 issued Subordinate General Obligation Limited Tax Bonds, Series 2022B, to Dacono Development Company in the aggregate principal amount of up to $51,500,000. The bonds were issed for the purpose of providing moneys sufficient to refund, on a current refunding basis, the District's Series 2018C bonds, financing capital projects for the benefit of District No. 1, and paying costs of issuance related to the bonds. Proceeds were used to pay off the 2018C remaining principal balance of $3,576,748 and accrued interest balance of $917,282. The Series 2022B Bonds are recorded within District No. 1.

## NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

**Series 2022A and 2022B Senior and Subordinate General Obligation Limited Tax Refunding Bonds**

On June 16, 2022, the District issued $8,150,000 of senior and $1,175,000 of subordinate general obligation limited tax refunding bonds. The bonds were issued for the purpose of refunding the 2018A Loan, purchasing the insurance policy, paying costs of issuance in connect with the Bonds, and in the case of the 2022A Senior Bonds only, funding a portion of the initial interest to accrued on the Series 2022A Senior Bonds and funding a portion of a reserve fund for the Series 2022A Senior Bonds.

The prior debt service for the 2018A Loan was $22,989,292 while the debt service for the new 2022A and 2022B bonds is $15,213,960, resulting in an aggregate debt service savings of $7,775,332. The present value saving for these cash flows resulted in an economic gain of $3,033,966.

The Senior 2022A Bonds bear a coupon interest rate of 4% to 5% per annum which is payable semi-annually on June 1 and December 1, commencing December 1, 2022, subject to optional and mandatory sinking fund redemption prior to maturity. The Series 2022A Bonds will mature on December 1, 2048. The Series 2022A Senior Bonds will constitute limited tax general obligations of the District payable solely from the Senior Pledged Revenue and certain District funds and accounts established by the Senior Pledged Revenue. This consists primarily of revenues derived from a District property tax levy of not more than 55.663 mills commencing with the December 2022 mill levy certification and continuing through the December 2024 mill levy certification, and then not in excess of 51.663 mills commencing with the December 2025 mill levy certification and continuing each year thereafter, less the amount needed for current and annual reasonable operation, maintenance and administrative obligations of the District, and the portion of the specific ownership taxes on motor vehicles imposed by the state of Colorado and is attributable to such tax levy. The Series 2022A Senior Bonds will constitute an irrevocable, but nonexclusive, first lien on the Senior Pledged Revenue and the amounts in such funds and accounts. The District made $164,560 of interest payments in 2022 and incurred $193,543 in interest expense for the year ended December 31, 2022 for these bonds.

The Series 2022B Subordinate Bonds bear a coupon interest rate of 7.5% per annum which is payable annually on December 15, commending December 15, 2022, to the extent of Subordinate Pledged Revenue available. The 2022B Subordinate Bonds mature on December 15, 2049. The 2022B Subordinate Bonds will also constitute limited tax general obligations of the District payable solely from the Subordinate pledged Revenue and certain Districts Funds and accounts established by the Subordinate Pledged Revenue. This consists primarily of the revenues derived from a District property tax levy of not more than 55.663 mills commencing with the December 2022 mill levy certification and continuing through the December 2024 mill levy certification, and then not in excess of 51.663 mills commencing with the December 2025 mill levy certification and continuing each thereafter, less the O&M Carve-Out (and less the amount levied for purposes of the Series 2022A Senior Bonds), and the specific ownership taxes attributable to such tax levy. The Series 2022B Subordinate Bonds constitute an irrevocable, but nonexclusive, subordinate lien on the Subordinate Pledged Revenue and the amounts held in the funds and accounts established by the Subordinated Pledged Revenue.

## NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

The Series 2022B Subordinate Bonds are structured as “cash flow” bonds. There are no scheduled payments of principal on the 2022B Subordinate Bonds prior to their maturity date, but rater the Subordinate Bonds are subject to mandatory redemption on each December 15 prior to maturity from and to the extent of any available Subordinate Pledged Revenue. All Series 2022B Subordinate Bonds and interest thereon will be deemed to be paid, satisfied and discharged on December 31, 2049, regardless of principal and interest paid on the Series 2022B Subordinate Bonds prior to such date. The District incurred $47,490 in interest expense for the year ended December 31, 2022 for these Bonds.

The 2022A Senior Limited Tax General Obligation Refunding Bonds will mature as follows:

| Year Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 120,000 | $ 347,800 | $ 467,800 |
| 2024 | 145,000 | 341,800 | 486,800 |
| 2025 | 150,000 | 334,550 | 484,550 |
| 2026 | 145,000 | 327,050 | 472,050 |
| 2027 | 150,000 | 319,800 | 469,800 |
| 2028-2032 | 975,000 | 1,470,750 | 2,445,750 |
| 2033-2037 | 1,375,000 | 1,189,500 | 2,564,500 |
| 2038-2042 | 1,875,000 | 832,000 | 2,707,000 |
| 2043-2047 | 2,430,000 | 414,600 | 2,844,600 |
| 2048 | 565,000 | 22,600 | 587,600 |
| Total | $ 7,930,000 | $ 5,600,450 | $ 13,530,450 |

The annual debt service requirements on the 2022B Subordinate Bonds are not currently determinable since they are payable only from available Subordinate Pledged Revenue.

### PRIVATE PLACEMENT

#### Developer Advances

In 2022, the Developer agreed to advance the District funds of $1,359,492 for eligible costs incurred in furtherance of the District’s permitted purposes. All Developer Advances have an interest rate of 8.5%. Total interest expense incurred for the Developer Advances is $62,272 for the year ended December 31, 2022.

#### 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, 2022, the District had $153,535,508 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.

## NOTE 5 RELATED PARTY

Three members of the Board of Directors are employees and are associated with Bellock Construction Company, construction manager and accountants for the District, Dacono Properties LLC and Dacono Development Company, Inc., the Developers within the District. During 2022, 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 2022, the District incurred accounting services fees in the amount of $33,481.

**Private Placement Long Term Obligations**

Dacono Properties, a related party, advanced the District for capital costs incurred in furtherance of the District's permitted purpose. The District received advances of $1,349,492 in 2022. All Developer advances have an interest rate of 8.5%. As of December 31, 2022, the outstanding balance of the Capital Loan is $1,349,492.

## 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 Gallagher Amendment, first added to the Colorado Constitution in 1982, required a residential to nonresidential property tax ratio of 45% to 55% and required the state legislature to adjust the residential assessment rate to maintain the required ratio. 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. During fiscal year 2017, the Colorado legislature reduced the residential assessment ratio from 7.96% to 7.20% causing the property tax mill rate for general obligation bonds and service costs to increase from 50 mills to 55.275 mills. The residential assessment ratio decreased to 7.15% in 2019 causing the mills to increase to 55.663 for taxes to be collected in 2020. During fiscal year 2020, the Gallagher Amendment was repealed. While the residential assessment rate is set in statute at 7.15%, the Colorado legislature approved a temporary reduction to 6.765% for the 2023 and 2024 tax years.

## NOTE 7 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenses occurred during fiscal year ended December 31, 2022:

| | Sweetgrass Metropolitan District No. 1 | Sweetgrass Metropolitan District No. 2 | Sweetgrass Metropolitan District No. 3 | Total Revenues |
|---|---|---|---|---|
| Sweetgrass Metropolitan: | | | | |
| District No. 1 | $ - | $ 155,000 | $ 17,500 | $ 172,500 |
| District No. 2 | 4,551,267 | - | - | 4,551,267 |
| District No. 3 | 8,999 | - | - | 8,999 |
| Total Expenditures | $ 4,560,266 | $ 155,000 | $ 17,500 | $ 4,732,766 |

## 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; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2022. 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.

## 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.

## NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS (CONTINUED)

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 10 NET POSITION

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

Restricted net position includes net position that is restricted for use either by 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 a deficit net position at December 31, 2022 of ($9,927,618). This deficit amount is the result of the District being responsible for the repayment of Series 2022A Bonds, Series 2022B Bonds, and Developer Advances issued for public improvements.

## 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, 2022**

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Property Taxes | $ 652,774 | $ 653,042 | $ 653,042 | $ - |
| Specific Ownership Taxes | 32,639 | 38,635 | 38,635 | - |
| Net Investment Income | - | 7,115 | 7,115 | - |
| Intergovernmental - Metro District No. 1 | 47,941 | 4,551,267 | 4,551,267 | - |
| Total Revenues | 733,354 | 5,250,059 | 5,250,059 | - |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Intergovernmental - Metro District No. 1 | - | 155,000 | 155,000 | - |
| County Treasurer's Fees | 9,792 | 9,793 | 9,793 | - |
| Audit | 10,500 | 9,870 | 9,870 | - |
| Accounting | 25,000 | 33,481 | 33,481 | - |
| Insurance | 2,750 | 2,069 | 2,069 | - |
| Trustee Fees | 7,000 | 2,000 | 2,000 | - |
| Miscellaneous | 28,455 | 1,931 | 1,932 | (1) |
| Debt Service: | | | | |
| Principal | 10,626,161 | 13,565,748 | 13,565,748 | - |
| Interest and Fiscal Charges | 1,763,908 | 1,255,485 | 1,255,485 | - |
| Nonuse Fee | 4,583 | - | - | - |
| Loan Origination Fees | 661,082 | 802,028 | - | 802,028 |
| Closing Costs | - | - | 473,015 | (473,015) |
| Bond Insurance | - | - | 232,921 | (232,921) |
| Prepayment Penalty | - | - | 96,090 | (96,090) |
| Total Expenditures | 13,139,231 | 15,837,405 | 15,837,404 | 1 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (12,405,877) | (10,587,346) | (10,587,345) | 1 |
| **OTHER FINANCING SOURCES** | | | | |
| Proceeds from Debt Instrument | 12,355,000 | 10,876,058 | 10,876,058 | - |
| Total Other Financing Sources | 12,355,000 | 10,876,058 | 10,876,058 | - |
| **EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES** | (50,877) | 288,712 | 288,713 | 1 |
| Fund Balances - Beginning of Year | 189,737 | 189,737 | 202,992 | 13,255 |
| **FUND BALANCES - END OF YEAR** | $ 138,860 | $ 478,449 | $ 491,705 | $ 13,256 |