

SWEETGRASS METROPOLITAN DISTRICT NO. 1

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
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YEAR ENDED DECEMBER 31, 2018**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Sweetgrass Metropolitan District No. 1, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Sweetgrass Metropolitan District No. 1 as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management omitted the management's discussion and analysis that accounting principals generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Greenwood Village, Colorado
April 5, 2019

SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities
ASSETS	
Cash and Investments	\$ 269,636
Restricted Cash	6,252,731
Refundable Deposit	16,154
Accounts Receivable	2,819
Property Tax Receivable	290
Due from County Treasurer	12
Prepaid Expenses	3,214
Construction in Progress	418,275
Total Assets	<u>6,963,131</u>
LIABILITIES	
Current Liabilities Due in Less Than One Year:	
Accounts Payable and Retainage Payable	<u>82,331</u>
Total Liabilities	<u>82,331</u>
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	<u>290</u>
Total Deferred Inflows of Resources	<u>290</u>
NET POSITION	
Net Investment in Capital Assets	336,754
Restricted for Emergencies	74
Restricted for Capital Projects	6,252,731
Unrestricted	<u>290,950</u>
Total Net Position	<u><u>\$ 6,880,509</u></u>

See accompanying Notes to Financial Statements.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities:			
General Government	\$ 220,278	\$ -	\$ (220,278)
Public Works	184,614	5,000	(179,614)
Interest and Related Costs on Long-Term Debt	68,360	-	(68,360)
	<u>\$ 473,252</u>	<u>\$ 5,000</u>	<u>(468,252)</u>
General Revenues:			
Property Taxes			2,097
Specific Ownership Taxes			162
Net Investment Income			459
Intergovernmental Revenue - Districts No. 2 and No. 3			9,099,900
Total General Revenues			<u>9,102,618</u>
Change in Net Position			8,634,366
Net Position - Beginning of Year			<u>(1,753,857)</u>
Net Position - End of Year			<u>\$ 6,880,509</u>

See accompanying Notes to Financial Statements.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
DECEMBER 31, 2018**

	General Fund
ASSETS	
Cash and Investments	\$ 269,636
Restricted Cash	6,252,731
Refundable Deposits	16,154
Accounts Receivable	2,819
Property Tax Receivable	290
Due from County Treasurer	12
Prepaid Items	3,214
Total Assets	\$ 6,544,856
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts Payable and Retainage Payable	\$ 82,331
Total Liabilities	82,331
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	290
Total Deferred Inflows of Resources	290
FUND BALANCE	
Nonspendable	3,214
Restricted for Emergencies	74
Restricted for Capital Projects	6,170,400
Unassigned	288,546
Total Fund Balance	6,462,234
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 6,544,855

See accompanying Notes to Financial Statements.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
YEAR ENDED DECEMBER 31, 2018**

Total Fund Balance - Total Governmental Fund	\$ 6,462,234
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Amounts reported for governmental activities in the statement of net position
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the fund balance sheet:

Capital Assets, Not Being Depreciated	<u>418,275</u>
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Net Position of Governmental Activities	<u><u>\$ 6,880,509</u></u>
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**SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2018**

	General Fund
REVENUES	
Property Taxes	\$ 2,097
Specific Ownership Taxes	162
Net Investment Income	459
Reimbursement Income	5,000
Intergovernmental - Sweetgrass	
Metropolitan District No. 2 and No. 3	9,099,900
Total Revenues	<u>9,107,618</u>
EXPENDITURES	
Current:	
Treasurer and Director Fees	91
Accounting	46,177
Audit	10,800
Insurance	3,237
Legal	13,336
LC Fees	22,673
Other	733
Intergovernmental - Sweetgrass	
Metropolitan District No. 2 and No. 3	123,231
Debt Service:	
Principal	2,489,992
Interest	96,440
Capital Outlay	337,864
Total Expenditures	<u>3,144,574</u>
NET CHANGE IN FUND BALANCES	5,963,044
Fund Balance - Beginning of Year	<u>499,190</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 6,462,234</u></u>

See accompanying Notes to Financial Statements.

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
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, 2018**

Net Change in Fund Balance - Total Governmental Fund	\$ 5,963,044
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Outlay	337,864
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Transfers of capital improvements to other entities decrease net position in the statement of activities. This transaction is not reported in the governmental fund as it is not a current use of financial resources.

	(184,614)
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The issuance of long-term debt (bonds) provides current financial resources to governmental funds, while the repayment of the principal on long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Payment of Principal	2,489,992
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The change in accrued interest expense does not have any impact on governmental fund expenditures. This transaction, however, does increase the amount of interest expense on the statement of activities.

	28,080
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Change in Net Position of Governmental Activities	\$ 8,634,366
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SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 DEFINITION OF REPORTING ENTITY

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

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

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

The District has no employees and all services are contracted.

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

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

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

The District is responsible for the repayment of bonds issued for the purpose of constructing infrastructure improvements, which will be conveyed to Dacono. The funds generated through the issuance of the bonds have been transferred from District No. 2 to District No. 1 for that purpose.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are intergovernmental revenue and property taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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 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.

Capital Assets

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

Fund Balance and Net Position

Net position is reported in the governmental activities and is classified as restricted, unrestricted, or net investment in capital assets. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. As of December 31, 2018, 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. This includes amounts that are not expected to be converted to cash, for example, prepaid amounts.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

Restricted Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 10). In compliance with this requirement, \$74 of the General Fund balance has been restricted.

The District has a balance of \$6,170,400, which is considered restricted fund balance for capital projects.

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 reflected on the statement of net position as of December 31, 2018 consist of the following:

Cash Deposits	\$ 262,533
Restricted Cash Held in Escrow	6,252,731
Investments	<u>7,103</u>
Total Cash and Investments	<u><u>\$ 6,522,367</u></u>

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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.

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

The District's cash deposits were covered under PDPA and not subject to custodial credit risk. At December 31, 2018, the District's cash deposits had a carrying balance of \$6,515,264.

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2018, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amortized Cost</u>
Colorado Surplus Asset Fund Trust *	Less than One Year	<u>\$ 7,103</u>

Colorado Surplus Asset Trust Fund *

As of December 31, 2018, the District had invested \$7,103 in the Colorado Surplus Asset Fund Trust, an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAAM by Standard & Poor's and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

NOTE 4 CONSTRUCTION IN PROCESS

An analysis of the changes in construction in progress for the year ended December 31, 2018 follows:

	<u>Balance at January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2018</u>
Construction in Progress	<u>\$ 265,025</u>	<u>\$ 337,864</u>	<u>\$ 184,614</u>	<u>\$ 418,275</u>

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

During 2018, major conveyances to the City of Dacono include warranty costs in the amount of \$184,614.

NOTE 5 RELATED PARTY

All three members of the Board of Directors are employees or are associated with Bellock Construction Company, construction manager and accountants for the District, Dacono Properties LLC and Dacono Development Company, Inc., the developers within the District. During 2018, Districts No. 1, No. 2, and No. 3 had the same Board of Directors (see Note 8).

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 RELATED PARTY (CONTINUED)

Construction Management Agreement

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

Amounts paid to Bellock Construction Company during 2018 for construction and construction management were \$51,526 and \$16,089, respectively.

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company on March 25, 2004. Under this agreement, accounting services are provided to both District No. 1 and District No. 2 at the hourly rates of Bellock Construction Company employees. During 2018, the District incurred accounting services fees in the amount of \$46,177.

NOTE 6 LONG-TERM OBLIGATIONS

The District's long-term obligations consist of the following for the year ended December 31, 2018:

	Balance at January 1, 2017	Additions	Reductions	Balance at December 31, 2018	Due Within One Year
Developer Advances Dacono Properties, LLC 2005 Bond Anticipation Notes	\$ 815,031	\$ -	\$ 815,031	\$ -	\$ -
Sweetgrass Investors, LLC 2005 Bond Anticipation Notes	1,052,411	-	1,052,411	-	-
Accrued Interest	622,550	-	622,550	-	-
	28,080	68,360	96,440	-	-
Total	<u>\$ 2,518,072</u>	<u>\$ 68,360</u>	<u>\$ 2,586,432</u>	<u>\$ -</u>	<u>\$ -</u>

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

Bond Anticipation Notes - Dacono Properties LLC

In December 2005, the District issued a subordinate note to Dacono Properties LLC for amounts previously advanced to the District by Dacono Properties LLC for Capital Costs. The note was authorized to be issued at \$2,914,273; however, the total advances from the developer were \$2,819,579. The Bond Anticipation Note (BAN) shall incur interest payable on April 1, July 1, October 1, and January 1, starting on April 1, 2006 at an interest rate of 8.5% per annum. On December 15, 2010, the District amended the terms of the BAN to extend the maturity date. The outstanding principal balance at the date of amendment was \$1,052,411. Interest will accrue according to the original terms of the agreement as stated above. During 2018, the District incurred \$42,490 in interest expense related to the BAN. The District made interest payments of \$60,135 and paid off the principal balance of \$1,052,411 in 2018.

Bond Anticipation Note - Sweetgrass Investors LLC

In December 2005, the District authorized the issuance of a subordinate note in aggregate principal amount of \$498,851 to be issued to Sweetgrass Investors, LLC for an amount previously advanced to the District by Sweetgrass Investors, LLC for Capital Costs. The total advances from the developer at that time were at \$482,339. The BAN shall incur interest payable on April 1, July 1, October 1, and January 1, starting on April 1, 2006 at an interest rate of 8.5% per annum. On December 15, 2010, the District amended the 2005 BAN, at which time the total outstanding interest of \$140,211 was added to the principal balance. The new principal balance is \$622,550 with interest accruing according to the original terms of the agreement. During 2018, the District incurred \$25,870 in interest expense related to the BAN. The District made interest payments of \$36,305 and paid off the principal balance of \$622,550 in 2018.

Landowner and Developer Advances

During 2005, the District entered into the 2005 restated loan agreement for capital costs with Sweetgrass Investors, LLC, the Landowner and Dacono Properties, LLC, the Developer. The Developer agreed to advance the District up to \$14,600,000 for eligible costs as defined by the Districts. Most of the advances made during 2005 were subsequently repaid with the issuance of bond anticipation notes (see above). The existing landowner and developer advances are carried at no interest. The developer advances of \$815,031 were paid off in 2018.

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, 2018, the District had remaining authorized but unissued indebtedness of \$147,777,500 for parks and recreation, streets and traffic controls, water, sewer and storm drainage, and safety or refunding the obligations issued for such purposes. 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.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 7 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenses occurred during fiscal year ended December 31, 2018:

	Sweetgrass Metropolitan District No. 1	Sweetgrass Metropolitan District No. 2	Sweetgrass Metropolitan District No. 3	Total Revenues
Sweetgrass Metropolitan:				
District No. 1	\$ -	\$ 9,099,900	\$ -	\$ 9,099,900
District No. 2	119,653	-	-	119,653
District No. 3	3,578	-	-	3,578
Total Expenditures	<u>\$ 123,231</u>	<u>\$ 9,099,900</u>	<u>\$ -</u>	<u>\$ 9,223,131</u>

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

District Facilities Construction and Service Agreement

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

The District is to construct the facilities benefiting all of the Districts and transfer them to the City of Dacono or the HOA. Districts No. 2 and No. 3 will, to the extent that it is to benefit, pay the capital costs and the service costs of operation and maintenance of such facilities. Districts No. 2 and No. 3 are required to fund, on an annual basis, the amount of actual service costs that it would be capable of funding through property tax revenue plus other fee revenue as determined in the annual budget. If the District disagrees as to the amount to be paid, then Districts No. 2 and No. 3 must pay District No. 1 the amount set forth in the annual budget as long as the property tax mill rate does not exceed 55.275 mills.

Maintenance and Warranty of Public Improvements

After completion of public improvements and initial acceptance by the local jurisdiction, the District is responsible for any and all warranty costs associated with the improvements, if any. After two years and receipt of final acceptance by the local jurisdiction, the District has no responsibility or exposure to warranty claims or costs.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 9 RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2018. 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 10 TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

SWEETGRASS METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 2,097	\$ 2,097	\$ -
Specific Ownership Taxes	105	162	57
Net Investment Income	-	459	459
Reimbursement Income	-	5,000	5,000
Intergovernmental - Sweetgrass			
Metropolitan Districts No. 2 and No. 3	111,463	9,099,900	8,988,437
Total Revenues	<u>113,665</u>	<u>9,107,618</u>	<u>8,993,953</u>
EXPENDITURES			
Current:			
Treasurer and Director Fees	91	91	-
Accounting	40,000	46,177	(6,177)
Audit	10,800	10,800	-
Insurance	3,400	3,237	163
Intergovernmental - Sweetgrass			
Metropolitan Districts No. 2 and No. 3	24,900	123,231	(98,331)
Other	5,000	733	4,267
Legal	18,000	13,336	4,664
LC fees	81,000	22,673	58,327
Debt Service:			
Principal	300,000	2,489,992	(2,189,992)
Interest	46,463	96,440	(49,977)
Capital Outlay	5,400,000	337,864	5,062,136
Total Expenditures	<u>5,929,654</u>	<u>3,144,574</u>	<u>2,785,080</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(5,815,989)	5,963,044	11,779,033
OTHER FINANCING SOURCES			
Developer Advances	5,300,000	-	(5,300,000)
Total Other Financing Sources	<u>5,300,000</u>	<u>-</u>	<u>(5,300,000)</u>
NET CHANGE IN FUND BALANCE	(515,989)	5,963,044	6,479,033
Fund Balances - Beginning of Year	<u>564,834</u>	<u>499,190</u>	<u>(65,644)</u>
FUND BALANCES - END OF YEAR	<u>\$ 48,845</u>	<u>\$ 6,462,234</u>	<u>\$ 6,413,389</u>