

SWEETGRASS METROPOLITAN DISTRICT NO. 1
Dacono, Colorado

FINANCIAL STATEMENTS
December 31, 2010

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Independent Auditor's Report

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

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, 2010, which collectively comprise Sweetgrass Metropolitan District No. 1's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sweetgrass Metropolitan District No. 1's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page II through VI and 18 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Greenwood Village, Colorado
February 28, 2011

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 deficit of the District decreased by \$2,316,698 in 2010, to \$(1,829,155). A net deficit is typical in a metropolitan district, which transfers its capital assets to another government entity (city, town, etc.) after construction is complete but retains the related debt in the district until it is paid off.
- Budgeted revenue was the same as actual revenue due to a budget amendment late in the year. Budgeted expenditures exceeded actual expenditures by \$334,102.

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 1-16 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, presented on pages 17-18.

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 deficit and the statement of activities.

The statement of net deficit presents information about all of the District's assets and liabilities. The difference between assets and liabilities is reported as net deficit. Over time, changes in net deficit 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 deficit of the District changed during the current fiscal year. Changes in net deficit 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 7-16 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. Required supplementary information can be found on page 17 and 18 of this report.

Government-wide Financial Analysis

Government-wide Net Deficit

The assets of the District are classified as current assets and other assets. Cash and investments are current assets. These assets are available to provide resources for the near-term operations of the District.

Other assets include intangible assets associated with District financing, which decreased in total due to amortization during 2010.

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 deferred revenue. 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 2011.

The liabilities of the primary government activities exceed assets by \$1,829,155 with unrestricted net deficit of \$(1,831,108). The District has \$1,953 restricted for emergencies as required by Article X, Section 20 of the Constitution of the State of Colorado.

Government-wide Total Assets as compared to Total Liabilities and Total Net Deficit:

| | <u>Net Deficit</u> | |
|--|-----------------------|-----------------------|
| | <u>2010</u> | <u>2009</u> |
| | | (Unaudited) |
| Assets: | | |
| Current | \$ 13,161 | \$ - |
| Intangible assets, net of accumulated amortization | 33,811 | 43,279 |
| Total assets | <u>46,972</u> | <u>43,279</u> |
| Liabilities: | | |
| Current | 1,686,447 | 4,106,282 |
| Noncurrent | 79,680 | 79,680 |
| Total liabilities | <u>1,766,127</u> | <u>4,185,962</u> |
| Net deficit: | | |
| Restricted | 1,953 | - |
| Unrestricted | (1,831,108) | (4,142,683) |
| Total net deficit | <u>\$ (1,829,155)</u> | <u>\$ (4,142,683)</u> |

Government-wide Activities

All of the District's programs and services are reported as governmental activities. Government activities decreased the net deficit of the District by \$2,316,698. The details of this decrease to the net deficit are shown in the following schedule:

The District's Changes in Net Deficit

| | <u>Governmental Activities</u> | |
|--------------------------------------|--------------------------------|-----------------------|
| | <u>2010</u> | <u>2009</u> |
| | | <u>Unaudited</u> |
| Revenues: | | |
| General revenue: | | |
| Intergovernmental revenue | \$ 2,755,100 | \$ 251,989 |
| Total revenue | <u>2,755,100</u> | <u>251,989</u> |
| Expenses: | | |
| Governmental activities: | | |
| General government | 153,761 | 32,911 |
| Assets conveyed to other governments | 8,646 | 2,905,923 |
| Interest and other fiscal charges | <u>275,995</u> | <u>286,211</u> |
| Total expense | <u>438,402</u> | <u>3,225,045</u> |
| Total change in net deficit | 2,316,698 | (2,973,056) |
| Net deficit - Beginning of year | <u>(4,145,853)</u> | <u>(1,169,627)</u> |
| Net deficit - End of year | <u>\$ (1,829,155)</u> | <u>\$ (4,142,683)</u> |

Key elements of the decrease in net deficit for governmental activities are as follows:

- Intergovernmental revenue increased by \$2,503,111 because of a bond issue in Sweetgrass Metropolitan District No. 2 (District No. 2).

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 Fund

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

All of the District's activity is reported in a governmental fund, which focuses 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, unreserved 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 \$7,451. The district has an unrestricted fund balance of \$5,498. Fund balance of \$1,953 is reserved for emergencies and debt service.

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 total fund balance to total fund expenditures. Actual expenditures of the general fund amounted to \$2,854,237. Total general fund balance represents .26 percent of expenditures.

General Fund Budgetary Highlights

The fund balance for the general fund increased by \$10,863, resulting in an ending fund balance of \$7,451. Actual revenue was the same as budgeted revenue. Actual expenditures were \$334,102 less than budgeted expenditures, principally due to capital expenditures being lower than expected.

Economic Factors and Next Year's Budgets and Rates

- Capital expenditures, if any, in 2011 will be financed by capital loans from the project Developer. Fund transfers from District No. 2 and No. 3 will be used to pay interest on the 2005 Bond Anticipation Notes.

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. 1
Mr. Lewis Holtsclaw
2500 Arapahoe, Suite 220
Boulder, Colorado 80302

BASIC FINANCIAL STATEMENTS

SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET DEFICIT
December 31, 2010

| | Governmental Activities |
|--|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 13,161 |
| Intangible assets (net of accumulated amortization) | 33,811 |
| TOTAL ASSETS | 46,972 |
| LIABILITIES | |
| Accounts payable and retainage payable | 5,710 |
| Noncurrent liabilities: | |
| Due in less than one year | |
| Accrued interest | 151,917 |
| 2005 Bond Anticipation Notes | 1,528,820 |
| Due in more than one year: | |
| Accrued interest | 2,033 |
| Landowner advance | 110,000 |
| Developer advances | 77,647 |
| TOTAL LIABILITIES | 1,876,127 |
| NET DEFICIT | |
| Restricted for: | |
| Emergencies | 1,953 |
| Unrestricted (deficit) | (1,831,108) |
| TOTAL NET DEFICIT | \$ (1,829,155) |

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

| Functions/Programs | <u>Expenses</u> | <u>Capital Grants and Contributions</u> | <u>Net (Expense) Revenue and Changes in Net Deficit Governmental Activities</u> |
|--|------------------------|--|--|
| Governmental activities: | | | |
| General government | \$ 153,761 | \$ - | \$ (153,761) |
| Assets conveyed to other governments | 8,646 | - | (8,646) |
| Interest and related costs on long-term debt | <u>275,995</u> | - | <u>(275,995)</u> |
| | <u>\$ 438,402</u> | <u>\$ -</u> | <u>(438,402)</u> |
| General revenues: | | | |
| Intergovernmental revenue - | | | |
| Districts No. 2 and No. 3 | | | <u>2,755,100</u> |
| Total general revenues | | | <u>2,755,100</u> |
| Change in net deficit | | | 2,316,698 |
| Net deficit - Beginning of year | | | <u>(4,145,853)</u> |
| Net deficit - End of year | | | <u>\$ (1,829,155)</u> |

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010**

| | General Fund |
|---|-------------------------|
| ASSETS | |
| Cash and investments | \$ 13,161 |
| Total assets | \$ 13,161 |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES | |
| Accounts payable and retainage payable | \$ 5,710 |
| Total liabilities | 5,710 |
| FUND BALANCE | |
| Fund balance | |
| Reserved for emergencies | 1,953 |
| Unreserved | 5,498 |
| Total fund balance | 7,451 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 13,161 |

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET DEFICIT
December 31, 2010**

| | |
|--|------------------------------|
| Total fund balance - Total governmental funds | <u>\$ 7,451</u> |
| Amounts reported for governmental activities in the statement of net deficit are different because: | |
| 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 funds. | <u>(153,950)</u> |
| Government funds report the cost of intangible assets as expenditures in the period purchased. However, in the statement of activities these costs are capitalized and expensed over time as amortization expense. | |
| Intangible assets | 237,759 |
| Accumulated amortization | <u>(203,948)</u> |
| | <u>33,811</u> |
| Some liabilities, including bonds and notes payable, are not due in the current period and, therefore, are not reported in the fund balance sheet. | |
| Developer advances | (77,647) |
| Landowner advance | (110,000) |
| 2005 Bond Anticipation Notes | <u>(1,528,820)</u> |
| | <u>(1,716,467)</u> |
| Net deficit of governmental activities | <u><u>\$ (1,829,155)</u></u> |

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
Year Ended December 31, 2010**

| | <u>General Fund</u> |
|---|----------------------------------|
| REVENUES | |
| Intergovernmental - Sweetgrass Metropolitan District No. 2 | \$ 2,755,100 |
| Total revenues | <u>2,755,100</u> |
| EXPENDITURES | |
| Current | |
| Management, audit and accounting | 15,297 |
| Insurance | 1,840 |
| Legal | 15,044 |
| Directional drilling | 110,000 |
| Intergovernmental - Sweetgrass | |
| Metropolitan Districts No. 2 and No. 3 | 5,488 |
| Other | 511 |
| Debt service | |
| Interest and fiscal charges | 924,313 |
| Debt payments | 1,773,098 |
| Capital outlay | |
| Total expenditures | <u>8,646</u> <u>2,854,237</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | <u>(99,137)</u> |
| OTHER FINANCING SOURCES | |
| Landowner Advance | <u>110,000</u> |
| Total other financing sources | <u>110,000</u> |
| NET CHANGE IN FUND BALANCES | 10,863 |
| FUND BALANCE DEFICIT - BEGINNING OF YEAR | <u>(3,412)</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 7,451</u> |

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

| | | |
|---|----|-----------|
| Net change in fund balance - Total governmental funds | \$ | 10,863 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, for government activities, those capital outlays other than noncapitalizable items are shown in the statement of activities at cost.</p> | | |
| Capital outlay | | 8,646 |
| <p>Government funds report intangible asset costs as expenditures. However, in the statement of activities these costs are capitalized and expensed over time as amortization expense.</p> | | |
| Amortization expense | | (9,468) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net deficit.</p> | | |
| Landowner advance | | (110,000) |
| <p>The repayment of the principal on long term debt consumes the current financial resources of governmental funds. This transaction, however, does not have any effect on net deficit. Also, government funds report the effect of issuance costs when debt is first issued as expenditures, whereas these costs are deferred and amortized in the statement of activities. Finally, accrued interest expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.</p> | | |
| Repayment of long-term debt | | 1,773,098 |
| Accrued interest | | 652,205 |
| <p>Transfers of capital improvements to other entities decrease net deficit in the statement of activities. This transaction is not reported in the governmental funds as it is not a current use of financial resources.</p> | | |
| | | (8,646) |
| Change in net deficit of governmental activities | \$ | 2,316,698 |

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - DEFINITION OF REPORTING ENTITY

Sweetgrass Metropolitan District No. 1 (District) is a quasi-municipal corporation located within the city limits 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 District No. 1, No. 2, and No. 3.

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

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

The District has no employees and all services are contracted.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of net deficit reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net deficit. As of December 31, 2010, the District had a net deficit as the District does not have a sufficient revenue base, and is reliant upon developer advances to finance all of its activities, both operational and capital.

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 development fees. 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.

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

indicated. The adopted budgets for the General Fund, Capital Projects Fund and Debt Service Fund have been consolidated and reflected as the General Fund budget for financial reporting purposes. The District increased its budgeted expenditures during 2010 by \$2,928,539 to include the payment of the 2005 bond Anticipation Notes and the related accrued interest.

Capital Assets

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

Fund Balance

Reservations of fund balance indicate that portion of fund balance which is legally segregated for a specific purpose. Unreserved - designated fund balance indicates the District's intention of future utilization of such funds beyond the current fiscal year. Future utilization is generally approved through the budget process and is subject to change by the District.

Reserved 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 11). \$1,953 of the General Fund balance has been reserved in compliance with this requirement.

When both restricted and unrestricted resources are available for use, the District's policy is to use restricted resources first, then unrestricted resources as they are needed.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments reflected on the statement of net assets as of December 31, 2010 consist of the following:

| | |
|----------------------------|------------------|
| Deposits | \$ 13,161 |
| Total cash and investments | <u>\$ 13,161</u> |

Cash Deposits

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND INVESTMENTS (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, 2010, the District's cash deposits had a carrying balance of \$13,161.

Investments

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

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

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

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

As of December 31, 2010, the District had no investments.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 - CONSTRUCTION IN PROCESS

An analysis of the changes in construction in progress for the year ended December 31, 2010 follows:

| By Classification | Balance January 1, 2010 | Additions | Retirements | Balance December 31, 2010 |
|--------------------------|--|------------------|--------------------|--|
| Construction in progress | <u>\$ -</u> | <u>\$ 8,646</u> | <u>\$ 8,646</u> | <u>\$ -</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 Deficit.

During 2010, conveyances to the City of Dacono include the Sweetgrass Parkway, Sweetgrass General, and Sweetgrass Metro Phase 2 in the amounts of \$188, \$8,279 and \$179, respectively.

NOTE 5 - RELATED PARTY

Two of the three members of the Board of Directors are employees or are associated with Bellock Construction Company, construction manager for the District, and Dacono Properties, the developer within the District. During 2010, Districts No. 1, No. 2 and No. 3 had the same Board of Directors (see Note 8).

Construction Management Agreement

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

Amounts paid to Bellock Construction Company during 2010 for construction and construction management were \$8,646 and \$8,142, 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 2010, the District incurred accounting services fees in the amount of \$12,997.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 6 - LONG-TERM OBLIGATIONS

| | Balance January 1, <u>2010</u> | <u>Additions</u> | <u>Deletions</u> | Balance December 31, <u>2010</u> | Amount Due Within <u>One Year</u> |
|------------------------------|--------------------------------------|-------------------|---------------------|--|---|
| Developer advances | \$ 77,647 | \$ - | \$ - | \$ 77,647 | \$ - |
| Landowner advance | - | 110,000 | - | 110,000 | - |
| Dacono Properties, LLC | | | | | |
| 2005 Bond Anticipation Notes | 2,819,579 | - | 1,773,098 | 1,046,481 | 1,046,481 |
| Sweetgrass Investors, LLC | | | | | |
| 2005 Bond Anticipation Notes | 482,339 | - | - | 482,339 | 482,339 |
| Accrued interest | 803,204 | 267,648 | 916,902 | 153,950 | 151,917 |
| | <u>\$ 4,182,769</u> | <u>\$ 377,648</u> | <u>\$ 2,690,000</u> | <u>\$ 1,870,417</u> | <u>\$ 1,680,737</u> |

The District's service plan limits its debt service mill levy to 40 mills.

Bond Anticipation Notes - Dacono Properties LLC. In December 2005, the District issued a subordinate note to Dacono Properties LLC for amounts previously advanced to the District by Dacono Properties LLC for Capital Costs. The note was authorized to be issued at \$2,914,273, however, the total advances from the developer were \$2,819,579. The Bond Anticipation Note shall incur interest payable on April 1, July 1, October 1, and January 1, starting on April 1, 2006 at an interest rate of 8.5% per annum. During 2010, the District incurred \$228,584 in interest expense related to the bond anticipation notes. In accordance with the terms of the note agreement, the mill levy may not exceed 50 mills for repayment of the note. The repayment of the Bond Anticipation is subordinate in all respects to repayment of any outstanding Senior Notes or Senior Debt of the District. In November 2010, the District paid \$1,773,098 in principal balance and \$816,902 in accrued interest. Bond Anticipation Notes shall be repaid with available funds upon presentation and surrender of this Note at its maturity, December 15, 2010. See Note 13 for the approval and subsequent issuance of the 2011 Bond Anticipation Notes.

Bond Anticipation Note - Sweetgrass Investors LLC. In December 2005, the District issued a subordinate note in aggregate principal amount of \$498,851 to be issued to Sweetgrass Investors, LLC for an amount previously advanced to the District by Sweetgrass Investors, LLC for Capital Costs. The note was authorized to be issued at \$498,851, however, the total advances from the developer were at \$482,339. The Bond Anticipation Note shall incur interest payable on April 1, July 1, October 1, and January 1, starting on April 1, 2006 at an interest rate of 8.5% per annum. During 2010, the District incurred \$41,113 in interest expense related to the bond anticipation notes. In accordance with the terms of the note agreement, the mill levy may not exceed 50 mills for repayment of the note. The repayment of the Bond Anticipation Notes principal and accrued interest is payable in immediately available funds upon presentation and surrender of this Note at its maturity, December 15, 2010. See Note 13 for the approval and subsequent issuance of the 2011 Bond Anticipation Notes.

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 6 - LONG-TERM OBLIGATIONS (CONTINUED)

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

Debt Authorization

The District voters approved \$164,000,000 of revenue obligation debt in 2005 at an interest rate not to exceed 18% per annum. At December 31, 2010, 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 \$14,600,000.

NOTE 7 - INTERGOVERNMENTAL REVENUE/EXPENDITURE

The following intergovernmental revenue and expenses occurred during fiscal year end December 31, 2010:

| | Sweetgrass Metropolitan District No. 1 | Sweetgrass Metropolitan District No. 2 | Sweetgrass Metropolitan District No. 3 | Total |
|---|--|--|--|---------------------|
| Sweetgrass Metropolitan District No. 1 | \$ - | \$ 2,719,100 | \$ 36,000 | \$ 2,755,100 |
| Sweetgrass Metropolitan District No. 2 | 2,755 | - | - | 2,755 |
| Sweetgrass Metropolitan District No. 3 | 2,733 | - | - | 2,733 |
| | <u>\$ 5,488</u> | <u>\$ 2,719,100</u> | <u>\$ 36,000</u> | <u>\$ 2,760,588</u> |

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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 both Districts.

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

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2010, the District had unexpended directional drilling contract commitments of \$330,000 which is secured by a line of credit at a financial institution by Sweetgrass Investors, LLC. The line of credit is secured by a certificate of deposit provided by Sweetgrass Investors, LCC and expires on October 9, 2011.

NOTE 10 - 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, 2010. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage during the past three years.

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

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 11 - 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 ballot issues for each respective year are as follows:

Ballot Issue A (De-Brucing Ad Valorem Tax Revenue)

Shall Sweetgrass Metropolitan District No. 1 taxes be increased \$2,000,000 annually (or such higher amount as is necessary to result in net revenue of up to \$2,000,000 annually) or by such lesser annual amount as may be necessary to pay the District's operations, maintenance, and other expenses: such taxes to consist of an ad valorem mill levy imposed without limitation of rate or with such limitations as may be determined by the Board, and in such amounts sufficient to produce the annual increase set forth above or such lesser amounts as may be necessary, to be used for the purpose of paying the District's operations, maintenance, and other expenses; and shall the proceeds of such taxes and investment income thereon constitute voter-approved revenue changes and be collected and spent by the District in 2005 and in each year thereafter without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, or Section 29-1-301, Colorado Revised Statutes?

2005 Ballot Issue O (De-Brucing Non Ad Valorem Tax Revenue)

Shall Sweetgrass Metropolitan District No. 1 be authorized to collect, retain, and spend the amount of all taxes, tap fees, system development fees, rental income, service charges, inspection charges, administrative charges, grants, public improvement fees, or any other fee, rate, toll, penalty or charge authorized by law to be imposed or collected by the District and any other revenues, income, or payments received by the District (including, without limitation, revenues, received by the District from the state, any political subdivision of the state, or any other governmental entity), during fiscal year 2005 and each year thereafter for as long as the District continues in existence without limitation by the revenue and spending limits of Article X, Section 20 of the Colorado Constitution or any other law, as they currently exist or as they may be amended in the future?

SWEETGRASS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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 12 - NET DEFICIT

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

Restricted net assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net assets at December 31, 2010 of \$1,953.

NOTE 13 - SUBSEQUENT EVENT

On December 28, 2010, the Board of Directors approved the issuance of two Bond Anticipation Notes in the amount of \$1,674,961. The notes, when used, will be dated as of December 15, 2010 and will pay the balance of the 2005 Bond Anticipation Notes, plus accrued interest. The notes will bear interest at 8.5% and will be due December 14, 2015. Interest will be quarterly commencing April 1, 2011.

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

REQUIRED SUPPLEMENTARY INFORMATION

SWEETGRASS METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2010

| | <u>Original Budgeted Amounts</u> | <u>Final Budgeted Amounts</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|--|---------------------------------------|------------------|---|
| REVENUES | | | | |
| Intergovernmental - Sweetgrass | | | | |
| Metropolitan District No. 2 | \$ 246,000 | \$ 2,755,100 | \$ 2,755,100 | \$ - |
| Total revenues | <u>246,000</u> | <u>2,755,100</u> | <u>2,755,100</u> | <u>-</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Management, audit and accounting | 9,200 | 16,300 | 15,297 | 1,003 |
| Insurance | 2,000 | 1,839 | 1,840 | (1) |
| Legal | 9,000 | 15,100 | 15,044 | 56 |
| Letter of credit fee | - | - | 5,581 | (5,581) |
| Directional drilling | - | - | 110,000 | (110,000) |
| Intergovernmental - Sweetgrass | | | | |
| Metropolitan Districts No. 2 and No. 3 | 6,400 | 6,400 | 5,488 | 912 |
| Other | 3,200 | 1,700 | 511 | 1,189 |
| Debt service | | | | |
| Principal payments | 230,000 | 2,700,000 | 1,773,098 | 926,902 |
| Interest | - | - | 918,732 | (918,732) |
| Capital outlay | - | 447,000 | 8,646 | 438,354 |
| Total expenditures | <u>259,800</u> | <u>3,188,339</u> | <u>2,854,237</u> | <u>334,102</u> |
| EXCESS REVENUES OVER (UNDER) EXPENDITURES | (13,800) | (433,239) | (99,137) | 334,102 |
| OTHER FINANCING SOURCES | | | | |
| Landowner advance | - | 440,000 | 110,000 | (330,000) |
| Total other financing sources | <u>-</u> | <u>440,000</u> | <u>110,000</u> | <u>(330,000)</u> |
| EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | (13,800) | 6,761 | 10,863 | 4,102 |
| FUND BALANCES (DEFICIT) - BEGINNING OF YEAR | <u>16,166</u> | <u>(242)</u> | <u>(3,412)</u> | <u>(3,170)</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 2,366</u> | <u>\$ 6,519</u> | <u>\$ 7,451</u> | <u>\$ 932</u> |