

SWEETGRASS METROPOLITAN DISTRICT NO. 2
Dacono, Colorado

FINANCIAL STATEMENTS
December 31, 2010

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Independent Auditor's Report

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

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, 2010, which collectively comprise Sweetgrass Metropolitan District No. 2's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sweetgrass Metropolitan District No. 2'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. 2 as of December 31, 2010, and the respective changes in financial position 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 pages 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sweetgrass Metropolitan District No. 2's basic financial statements. The secondary market information, as listed in the Table of Contents, has not been audited by us and, accordingly, we do not express an opinion on such information.

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 District issued its first limited tax general obligation bonds in 2010.
- The net deficit of the District declined by \$2,521,521 in 2010 to (\$2,518,842). A net deficit is typical in a debt service metropolitan district which transfers all of its revenue to a control district but retains its debt in the district until it is paid off.

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.

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 assets and the statement of activities.

The statement of net assets presents information about all of the District's assets and liabilities. The difference between assets and liabilities is reported as net assets. Over time, changes in net assets 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 assets of the District changed during the current fiscal year. Changes in net assets 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 18 of this report.

Government-wide Financial Analysis

Government-wide Net Assets

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

Current and noncurrent liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued interest 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.

Deferred property tax revenue decreased by \$13,503 which is attributable to a decrease in assessed valuation within the District, principally from a drop in oil and gas valuation.

The liabilities of the primary government activities exceed assets by \$2,518,842 with a deficit in unrestricted net assets of \$2,685,493.

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

	<u>Net Assets</u>	
	<u>2010</u>	<u>Unaudited 2009</u>
Assets:		
Current	\$ 367,098	\$ 207,300
Bond issue costs, net of accumulated depreciation	<u>73,894</u>	<u>-</u>
Total assets	<u>440,992</u>	<u>207,300</u>
Liabilities:		
Current	209,834	205,712
Noncurrent	<u>2,750,000</u>	<u>-</u>
Total liabilities	<u>2,959,834</u>	<u>205,712</u>
Net assets:		
Restricted	166,651	-
Unrestricted	<u>(2,685,493)</u>	<u>2,679</u>
Total net assets	<u>\$ (2,518,842)</u>	<u>\$ 2,679</u>

Government-wide Activities

Government activities decreased the net assets of the District by \$2,521,521. The details of this decrease are shown in the following schedule:

The District's Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>Unaudited 2009</u>
Revenues:		
Program revenue:		
Capital grants	\$ -	\$ -
General revenue:		
Property taxes	205,668	203,116
Specific ownership taxes	12,715	16,060
Investment income	<u>108</u>	<u>272</u>
Total revenue	<u>218,491</u>	<u>219,448</u>
Expenses:		
Governmental activities:		
General government	<u>2,740,012</u>	<u>228,232</u>
Total expense	<u>2,740,012</u>	<u>228,232</u>
Total change in net assets	(2,521,521)	(8,784)
Net assets - Beginning of year	<u>2,679</u>	<u>11,463</u>
Net (deficit) - End of year	<u>\$ (2,518,842)</u>	<u>\$ 2,679</u>

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

- Property tax revenue increased \$2,552 due to the increase in the assessed valuation of the District.
- General government expenses increased \$2,511,780 due to the District transferring more funds to Sweetgrass Metropolitan District No. 1 during 2010.

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

Financial Analysis of the District's Governmental Funds

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

All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine where there are more or fewer financial resources that can be spent in the near future. Such information is useful in assessing the District's financing requirements. In particular, 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 \$174,889.

The general fund is the chief operating fund of the District. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Actual expenditures of the general fund amounted to \$2,799,036. Total general fund balance represents 6.25% percent of expenditures.

General Fund Budgetary Highlights

The fund balance for the general fund increased by \$172,210, resulting in an ending fund balance of \$174,889. Actual revenue exceeded budgeted revenue by \$32. The surplus of revenue is attributed to a difference in the specific ownership tax revenue of \$664 and a difference in the interest income and transfer from District No. 1 of \$187 and \$445 as compared to budgeted amounts. Budgeted expenditures exceeded actual expenditures by \$105, principally due to the audit exemption costs were less than anticipated during the year.

Economic Factors and Next Year's Budgets and Rates

- The assessed valuation of property in the District decreased by 6.56% in 2010 principally due to a drop in oil and gas valuation, but brisk construction activity in 2010 portends a substantial increase in 2011. It is anticipated that the mill levy will remain at 50 mills for the foreseeable future.

Requests for Information

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

Sweetgrass Metropolitan District No. 2
Mr. Lewis Holtsclaw
2500 Arapahoe, Suite 220
Boulder, Colorado 80302

BASIC FINANCIAL STATEMENTS

SWEETGRASS METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET DEFICIT
December 31, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 9,020
Restricted cash and investments	165,000
Property taxes receivable	192,209
Due from other governments	869
Bond issue costs (net of accumulated amortization)	<u>73,894</u>
TOTAL ASSETS	<u>440,992</u>
LIABILITIES	
Deferred property tax revenue	192,209
Due within the year:	
Accrued interest	17,625
Due in more than one year:	
2010 Limited Tax General Obligation Bonds	<u>2,750,000</u>
TOTAL LIABILITIES	<u>2,959,834</u>
NET DEFICIT	
Restricted for emergencies	1,651
Restricted for debt service	165,000
Unrestricted	<u>(2,685,493)</u>
TOTAL NET DEFICIT	<u>\$ (2,518,842)</u>

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u> <u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Deficit</u> <u>Governmental Activities</u>
Governmental activities:			
General government	\$ 2,722,181	\$ -	\$ (2,722,181)
Interest and related costs on long-term debt	17,831	-	(17,831)
	<u>\$ 2,740,012</u>	<u>\$ -</u>	<u>(2,740,012)</u>
General revenues:			
Property taxes			205,668
Specific ownership taxes			12,715
Net investment income			108
Total general revenues			<u>218,491</u>
Change in net deficit			(2,521,521)
Net assets - Beginning of year			<u>2,679</u>
Net deficit - End of year			<u>\$ (2,518,842)</u>

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010**

	General Fund
ASSETS	
Cash and investments	\$ 9,020
Restricted cash and investments	165,000
Property taxes receivable	192,209
Due from other governments	869
Total assets	\$ 367,098
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Deferred property tax revenue	\$ 192,209
Total liabilities	192,209
 FUND BALANCE	
Unreserved	8,238
Reserved for emergencies	1,651
Reserved for debt service	165,000
Total fund balance	174,889
TOTAL LIABILITIES AND FUND BALANCE	\$ 367,098

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET DEFICIT
December 31, 2010**

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

Total fund balance - Total governmental funds	<u>\$ 174,889</u>
Accrued interest payable is recognized for governmental activities, but is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	<u>(17,625)</u>
Government funds report bond issue costs as expenditures. However, in the statement of activities these costs are capitalized and expensed over time as amortization expense.	
Bond issuance costs	74,100
Accumulated amortization	<u>(206)</u>
	<u>73,894</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.	
2010 General Obligation Bonds	<u>(2,750,000)</u>
Net deficit of governmental activities	<u><u>\$ (2,518,842)</u></u>

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended December 31, 2010

	General Fund
REVENUES	
Property taxes	\$ 205,668
Specific ownership taxes	12,715
Transfer from District No. 1	2,755
Net investment income	108
Total revenues	221,246
EXPENDITURES	
Current	
Transfer to District No. 1	2,719,100
County Treasurer's fees	3,080
Audit exemption	1,100
Insurance	1,656
Debt service	
Bond issuance costs	74,100
Total expenditures	2,799,036
DEFICIENCY OF REVENUE UNDER EXPENDITURES	(2,577,790)
OTHER FINANCING SOURCES	
Bond proceeds	2,750,000
Total other financing sources	2,750,000
NET CHANGE IN FUND BALANCES	172,210
FUND BALANCE - BEGINNING OF YEAR	2,679
FUND BALANCE - END OF YEAR	\$ 174,889

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

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2010**

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

Net change in fund balance - Total governmental funds	<u>\$ 172,210</u>
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.	
Bond proceeds	<u>(2,750,000)</u>
A decrease in accrued interest does not have any impact on governmental fund expenditures. This transaction, however, does reduce the amount of interest expense on the statement of activities.	
	<u>(17,625)</u>
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.	
Bond issuance costs	74,100
Amortization of bond issuance costs	<u>(206)</u>
	<u>73,894</u>
Change in net deficit of governmental activities	<u><u>\$ (2,521,521)</u></u>

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - DEFINITION OF REPORTING ENTITY

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

Sweetgrass Metropolitan District No. 1 (District No. 1) was organized concurrently with Sweetgrass Metropolitan District No. 2 and Sweetgrass Metropolitan District No. 3 (District No. 3). District No. 1 has the power to provide water, sanitation, storm drainage, streets, traffic and safety controls, and park and recreation improvements and other related improvements for the benefit of taxpayers and service users within the Districts' boundaries. The Service Plan requires District No. 1 to convey the constructed improvements to 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. 1, District No. 3, and Dacono.

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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 deficit 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 deficit reports all financial resources of the District. The difference between the assets and liabilities of the District is reported as net deficit.

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

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.

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

The District reports the following major governmental fund:

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The District amended its budget to increase expenditures by \$2,582,881 to include the transfer of the General Obligation bond proceeds.

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 revenue in the year they are levied and measurable. The deferred property tax revenue are recorded as revenue in the year they are available or collected.

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. \$1,651 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 as they are needed.

The District also has \$165,000 of reserved fund balance related requirements of the bond issuance. See Note 4 for more details.

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND INVESTMENTS

Cash and investments are reflected on the December 31, 2010 statement of net deficit as follows:

Restricted	\$ 165,000
Unrestricted	<u>9,020</u>
	<u>\$ 174,020</u>

Cash and investments as of December 31, 2010 consist of the following:

Investments	<u>\$ 174,020</u>
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Investments

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

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

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2010, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust	Less than one year	\$ 9,020
Federate Prime Obligation Fund	Less than one year	<u>165,000</u>
		<u>\$ 174,020</u>

Colorado Surplus Asset Trust Fund

As of December 31, 2010, the District had invested \$9,020 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.

Federated Prime Obligation Fund

As of December 31, 2010, the District had invested \$165,000 in the Federated Prime Obligation Fund. The fund invests in commercial paper and notes, variable rate instruments, repurchase agreements, and bank instruments. The Fund operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAAM by Standard & Poor's and has a weighted average maturity of 43 days.

NOTE 4 - LONG-TERM OBLIGATIONS

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

Limited Tax General Obligation Bonds - On November, 18, 2010, the District issued \$2,750,000 of Limited Tax General Obligation Bonds. The bonds bear interest at the rates set forth below, during the specified time periods, and such interest is payable semi-annually on June 1 and December 1 commencing June 1, 2011. The District incurred \$17,625 in interest expense for the year ended December 31, 2010 for these bonds.

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

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

Optional Redemption. The Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2015, and on any date thereafter, upon payment of the principal amount so redeemed plus accrued interest to the date of redemption, without redemption premium.

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

Pledged Revenue consists property tax revenue, specific ownership tax revenue, and any other legally available moneys that the District determines to credit to the bond. Property Tax Revenues and Specific Ownership Tax Revenues are derived from imposition of the Debt Service Mill Levy by the District which may not exceed 40 mills. The Bonds are also secured by amounts on deposit in the Reserve Fund. As of December 31, 2010 the District had \$165,000 in the Reserve Fund, as required.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 169,125	\$ 169,125
2012	-	165,000	165,000
2013	-	165,000	165,000
2014	-	165,000	165,000
2015	-	165,000	165,000
2016-2020	-	1,072,500	1,072,500
2021-2025	350,000	1,048,000	1,398,000
2026-2030	520,000	882,800	1,402,800
2031-2035	760,000	639,600	1,399,600
2036-2040	1,120,000	282,800	1,402,800
	<u>\$ 2,750,000</u>	<u>\$ 4,754,825</u>	<u>\$ 7,504,825</u>

Debt Authorization

The District voters approved \$165,000,000 of revenue obligation debt in 2005 at an interest rate not to exceed 18% per annum. At December 31, 2010, the District's management believes the District is in compliance with its authorized debt limitations. In the future, the District may issue a portion of 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.

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

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

NOTE 5 - RELATED PARTY

All of the members of the Board of Directors are employees or are associated with Bellock Construction Company, developer and construction manager for the District and Dacono Properties, LLC, the developer within the District and Sweetgrass Investors, LLC - holders of some of the District's outstanding bond anticipation notes. During 2010, 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 2010, the District incurred accounting services fees in the amount of \$-0-.

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 District No. 2 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. District No. 2 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.

District No. 2 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 District No. 2 and District No. 3 must pay District No. 1 the amount set forth in the annual budget as long as the property tax mill rate does not exceed 50 mills.

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 7 - INTERGOVERNMENTAL REVENUE/EXPENDITURE

The following intergovernmental revenues and expenditures 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	\$ -	\$ 2,755	\$ 2,733	\$ 5,488
Sweetgrass Metropolitan District No. 2	2,719,100	-	-	2,719,100
Sweetgrass Metropolitan District No. 3	36,000	-	-	36,000
	<u>\$ 2,755,100</u>	<u>\$ 2,755</u>	<u>\$ 2,733</u>	<u>\$ 2,760,588</u>

NOTE 8 - RISK MANAGEMENT

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

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

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

SWEETGRASS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

On November 5, 2005, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all annual District revenue without regard to any limitations under TABOR. The ballot issues for each respective year are as follows:

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

Shall Sweetgrass Metropolitan District No. 2 taxes be increased up to \$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 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

Shall Sweetgrass Metropolitan District No. 2 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. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 9 - 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.

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, 2010

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 203,956	\$ 205,668	\$ 205,668	\$ -
Specific ownership taxes	10,198	12,051	12,715	664
Net investment income	295	295	108	(187)
Transfer from from District No. 1	<u>3,200</u>	<u>3,200</u>	<u>2,755</u>	<u>(445)</u>
Total revenues	<u>217,649</u>	<u>221,214</u>	<u>221,246</u>	<u>32</u>
EXPENDITURES				
Current				
Transfer to District No. 1	210,000	2,719,100	2,719,100	-
County Treasurer's fees	3,059	3,085	3,080	5
Audit exemption	1,200	1,200	1,100	100
Insurance	2,000	1,655	1,656	(1)
Miscellaneous	1	1	-	1
Debt service				
Bond issuance costs	<u>-</u>	<u>74,100</u>	<u>74,100</u>	<u>-</u>
Total expenditures	<u>216,260</u>	<u>2,799,141</u>	<u>2,799,036</u>	<u>105</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,389</u>	<u>(2,577,927)</u>	<u>(2,577,790)</u>	<u>137</u>
OTHER FINANCING SOURCES				
Bond proceeds	<u>-</u>	<u>2,750,000</u>	<u>2,750,000</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>2,750,000</u>	<u>2,750,000</u>	<u>-</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	1,389	172,073	172,210	137
FUND BALANCE - BEGINNING OF YEAR	<u>477</u>	<u>1,588</u>	<u>2,679</u>	<u>1,091</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,866</u>	<u>\$ 173,661</u>	<u>\$ 174,889</u>	<u>\$ 1,228</u>

SECONDARY MARKET INFORMATION

SWEETGRASS METROPOLITAN DISTRICT NO. 2
2010 ASSESSED VALUATION OF CLASSES OF PROPERTY IN THE DISTRICT
December 31, 2010
UNAUDITED

Class	Total Assessed Valuation	Percent of Total Assessed Valuation	"Actual" Valuation	Percent of Total "Actual" Valuation
Residential	\$ 2,590,340	67.39%	\$ 32,539,608	89.27%
Commercial	40,120	1.04%	138,374	0.38%
Vacant	460,770	11.99%	1,589,017	4.36%
Other	73,140	1.90%	249,778	0.69%
Natural resources	<u>679,800</u>	<u>17.68%</u>	<u>1,930,950</u>	<u>5.30%</u>
Total	<u>\$ 3,844,170</u>	<u>100.00%</u>	<u>\$ 36,447,727</u>	<u>100.00%</u>

Source: Weld County Assessor's Office

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
TEN LARGEST TAXPAYERS IN THE DISTRICT
December 31, 2010
UNAUDITED**

<u>Taxpayer Name</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation (1)</u>
Encana Oil & Gas (USA) Inc	\$ 530,220	13.79%
Dacono Properties LLC	243,310	6.33%
Noble Energy Inc	157,510	4.10%
Richmond American Homes of Colorado	122,130	3.18%
Public Service CO of Colo (Xcel)	42,680	1.11%
Private Party	25,900	0.67%
Private Party	25,900	0.67%
Kerr-Mcgee Oil & Gas Onshore LP	25,860	0.67%
Private Party	25,460	0.66%
Private Party	<u>25,460</u>	<u>0.66%</u>
	<u>\$1,224,430</u>	<u>31.85%</u>

(1) Based on a 2010 certified assessed valuation of \$3,844,170

Source: Weld County Assessor's Office

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
OVERLAPPING MILL LEVIES BY TAXING ENTITIES
December 31, 2010
UNAUDITED**

<u>Taxing Entity</u>	<u>2010 Mill Levy</u>
Aims Junior College	6.360
Carbon Valley Park and Recreation District	6.657
Dacono, City of	29.318
Mountain View Fire	11.747
Northern Colorado Water Conservancy District	1.000
St. Vrain Valley Sanitation District	0.745
Weld County School District RE-8	16.804
Weld County School District RE-8	<u>25.319</u>
Subtotal	97.950
Sweetgrass Metro Distirct No. 2	<u>50.000</u>
Total	<u><u>147.950</u></u>

Source: Weld County Assessor's Office

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
HISTORY OF DISTRICT'S MILL LEVY
December 31, 2010
UNAUDITED**

<u>Levy/Collection Year</u>	<u>General Fund Mill Levy</u>	<u>Bond Fund Mill Levy</u>	<u>Total Mill Levy</u>	<u>Total Assessed Valuation</u>
2005/2006	3.000	40.000	43.000	\$ 1,332,370
2006/2007	10.000	40.000	50.000	2,233,490
2007/2008	10.000	40.000	50.000	3,746,540
2008/2009	10.000	40.000	50.000	4,050,700
2009/2010	10.000	40.000	50.000	4,114,240
2010/2011	10.000	40.000	50.000	3,844,170

Sources: State of Colorado, Colorado Department of Local Affairs, Division of Property Taxation, 2006-2010 Property Tax Annual Reports, the Weld County Assessor's Office and the District

**SWEETGRASS METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2010**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Taxes		Percent Collected to Levied
			Levied	Collected	
2006	\$ 1,332,370	43.000	\$ 57,292	\$ 57,292	100.00%
2007	\$ 2,233,490	50.000	\$ 111,675	\$ 41,498	37.16%
2008	\$ 3,746,540	50.000	\$ 187,327	\$ 185,296	98.92%
2009	\$ 4,050,700	50.000	\$ 202,535	\$ 202,137	99.80%
2010	\$ 4,114,240	50.000	\$ 205,712	\$ 205,668	99.98%
Estimated for the year ending December 31, 2011	\$ 3,844,170	50.000	\$ 192,209		

SOURCE: Weld County Assessor's Office

NOTE:

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