BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2
Weld County, Colorado

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FINANCIAL STATEMENTS
December 31, 2014

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Independent Auditor's Report

Board of Directors
Beebe Draw Farms Metropolitan District No. 2

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Beebe Draw Farms Metropolitan District No. 2 as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Beebe Draw Farms Metropolitan District No. 2 as of December 31, 2014, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
June 9, 2015

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

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GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION
December 31, 2014

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and investments	$ 110,858	$ –	$ 110,858
Cash and investments – restricted	48,000	–	48,000
Receivable – County Treasurer	10,738	–	10,738
Property taxes receivable	1,565,418	–	1,565,418
Total assets	$ 1,735,014	$ –	$ 1,735,014
LIABILITIES			
Accounts payable	$ 3,846	$ –	$ 3,846
Due to the Authority	165,750	–	165,750
Total liabilities	169,596	–	169,596
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	1,565,418	–	1,565,418
Total deferred inflows of resources	1,565,418	–	1,565,418
FUND BALANCES/NET POSITION			
Fund Balances:			
Restricted			–
Emergencies	48,000	(48,000)	–
Unassigned	(48,000)	48,000	–
Total fund balances	–	–	–
Total liabilities, deferred inflows of resources and fund balances	$ 1,735,014		
Net Position:			
Restricted for:			
Emergencies		48,000	48,000
Unrestricted		(48,000)	(48,000)
Total net position		$ –	$ –

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

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

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STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

	Governmental Fund Type		
	General Fund	Adjustments	Statement of Activities
EXPENDITURES			
Accounting and audit	$ 5,838	$ –	$ 5,838
Election expense	775		775
Insurance	3,892	–	3,892
Legal	4,357	–	4,357
Management fees	3,931	–	3,931
Miscellaneous expense	1,062	–	1,062
Director's fees	700	–	700
Treasurer's fees	22,009	–	22,009
Transfer to Authority – Infrastructure	959,548	–	959,548
Transfer to Authority – Amenities	239,887	–	239,887
Transfer to Authority – General Fund	349,012	–	349,012
Total expenditures/expenses	1,591,011	–	1,591,011
REVENUES			
General revenues – Property taxes	1,467,257	–	1,467,257
– Specific ownership taxes	123,699	–	123,699
– Interest income	8	–	8
– Other income	47	–	47
Total revenues	1,591,011	–	1,591,011
NET CHANGES IN FUND BALANCES/NET POSITION	–	–	–
FUND BALANCE/NET POSITION:			
BEGINNING OF YEAR	–	–	–
END OF YEAR	$ –	$ –	$ –

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

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

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GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	$ 1,467,257	$ 1,467,257	$ 1,467,257	$ –
Specific ownership taxes	88,035	232,613	123,699	(108,914)
Interest income	–	100	47	(53)
Miscellaneous income	–	30	8	(22)
Total revenues	1,555,292	1,700,000	1,591,011	(108,989)
EXPENDITURES				
Accounting and audit	8,500	9,700	5,838	3,862
Election expense	1,000	688	775	(87)
Insurance	2,615	3,892	3,892	–
Legal	2,500	4,000	4,357	(357)
Management fees	2,500	2,500	3,931	(1,431)
Miscellaneous expenses	1,700	1,700	1,062	638
Director's fees	800	800	700	100
Treasurer's fees	22,009	22,009	22,009	–
Transfer to Authority – Infrastructure	894,398	1,003,759	959,548	44,211
Transfer to Authority – Amenities	223,600	250,940	239,887	11,053
Transfer to Authority – General Fund	349,011	349,012	349,012	–
Emergency reserve	46,659	51,000	–	51,000
Total expenditures	1,555,292	1,700,000	1,591,011	108,989
NET CHANGE IN FUND BALANCE	–	–	–	–
FUND BALANCE – BEGINNING OF YEAR	–	–	–	–
FUND BALANCE – END OF YEAR	$ –	$ –	$ –	$ –

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

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – DEFINITION OF REPORTING ENTITY

Definition of Reporting Entity

Beebe Draw Farms Metropolitan District No. 2 (The District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act and an Amended and Restated Consolidated Service Plan (Service Plan) approved by Weld County March 16, 2011. The District's service area is located in Weld County, Colorado. The District was established for the purpose of designing, acquiring, installing, financing, and operating and maintaining certain water, street, safety protection, mosquito control and park and recreation facilities and services within the District and Beebe Draw Farms Metropolitan District No. 1 (District No. 1).

The District follows the Governmental Accounting Standards Boards (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 or the Beebe Draw Farms Authority.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 – Special Purpose Governments.

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. Property taxes are recognized as revenues in the year for which they are levied.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 District considers revenues to be available if they are collected within 60 days of the end of the current period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The government reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Fund Balances

Beginning with fiscal year 2011 the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.

Restricted fund balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned fund balance – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned fund balance – The residual portion of fund balance that does not meet any of the above criteria.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall of 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 modified the appropriation of the General Fund from $1,555,292 to $1,700,000.

Cash

The District follows the practice of pooling cash of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility.

Property and Equipment

Property and equipment are stated at cost except for those assets contributed which are stated at estimated fair market value at the date of contribution or at the Developer's cost. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Depreciation has been provided over the estimated useful lives of 30-40 years using the straight line method.

Reserved Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. $48,000 of the General Fund balance has been reserved in compliance with this requirement.

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of December 31, 2014 are classified in the accompanying financial statement as follows:

Statement of net assets:	
Cash and investments - unrestricted	$ 110,858
- restricted	48,000
	$ 158,858

Cash and investments as of December 31, 2014 consist of the following:

Deposits with financial institutions	$ 4,079
Investments	154,779
	$ 158,858

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 102% of the aggregate uninsured deposits.

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

Custodial Credit Risks – Deposits

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2014, none of the District's bank balance of $4,079 was exposed to custodial credit risk.

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Investments

Credit Risk

The District has adopted a formal investment policy in accordance with state statutes.

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

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

The District generally limits its concentration of investments to those noted with an asterisk (*) above, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk.

The local government investment pools include the Colorado Local Government Liquid Assets Trust (ColoTrust) rated AAAm by Standard & Poor's.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors, such actions are generally associated with a debt service or sinking fund requirements.

As of December 31, 2014 the District had the following investments:

Investment	Maturity	Fair Value
Colorado Liquid Asset Trust	Less than one year	$ 154,779

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

As of December 31, 2014 the District had invested in the Colorado Local Government Liquid Asset Trust (ColoTrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission 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 offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2014, the District has $154,779 invested in COLOTRUST PRIME.

Concentration of Credit Risk

The District does not have a policy that addresses limitations on the amount that can be invested in any one issuer, however, the District invests primarily in local government investment pools and/or U.S. securities, which are not subject to concentration of credit risk.

NOTE 4 – LONG-TERM DEBT AUTHORIZATION

On November 2, 2010 the voters of the District revoked all of its previous debt authorization and authorized the following:

	Debt Authorization	Maximum Interest Rate	Maximum Annual Property Tax Increase
Street improvements – Pledge Agreement	$ 44,000,000	15%	$50,600,000
Park & recreation improvements – Pledge Agreement	44,000,000	15%	$50,600,000
Water improvements – Pledge Agreement	44,000,000	15%	$50,600,000
Street improvements – Bonds	44,000,000	15%	$50,600,000
Park & recreation improvements - Bonds	44,000,000	15%	$50,600,000
Water improvements - Bonds	44,000,000	15%	$50,600,000
Total	$264,000,000		

NOTE 5 – RELATED PARTIES

The primary developer of real property in the District is R.E.I. Limited Liability Company (Developer), successor in interest to Beebe Draw Farms, Ltd. Certain members of the Board of Directors are associated with the Developer.

NOTE 6 – RISK MANAGEMENT

The District is exposed to various risks of loss related to 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, 2014. 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 in any of the past three fiscal years.

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

NOTE 7 – TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known 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 votes 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. The District has reserved $48,000 to comply with this requirement.

NOTE 7 – TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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

NOTE 8—DEVELOPER FEE AND WATER TAP FEE AGREEMENT

On December 8, 1998, District No. 1 entered into a Developer Fee and Water Tap Fee Agreement with the Developer (see Note 5) pursuant to which the Developer shall pay certain fees to District No. 2 (as assignee of District No. 1) on or before the date of transfer or sale of a lot. Such fees constitute a statutory lien on each lot, subject to release upon payment of the fees.

On December 5, 2000, this agreement was amended (collectively with the December 8, 1998 Agreement, the "Developer and Water Tap Fee Agreement") pursuant to which the Developer agreed to prepay up to $627,500 in fees at the rate of $16,000 per lot, to District No. 2 (as assignee of District No. 1) by December 31, 2001 or, if later, within 10 days of a written demand by the District to the Developer for such funds as needed to make all required construction payments for improvements to Milton Lake. As of December 31, 2014, the Developer prepaid $587,000 in advance development fees; applied $243,000 to specific lots, leaving a balance of $344,000 in prepaid developer fees.

Pursuant to the Authority Establishment Agreement (see Note 9), all fees collected pursuant to this agreement for tax year 2011 and each year thereafter, shall be collected by District No. 2, 100% of which shall be transferred into the Authority's Infrastructure Account. Pursuant to the Authority Establishment Agreement, fees collected from this agreement are not subject to the 80/20 split further described in the Authority Establishment Agreement.

NOTE 9 - BEEBE DRAW FARMS AUTHORITY ESTABLISHMENT AGREEMENT (AEA)

Effective April 12, 2011 the District entered into an Authority Establishment Agreement with the Beebe Draw Farms Metropolitan District No. 1 (AEA), as amended December 11, 2012, whereby the Beebe Draw Farms Authority (Authority), an authority and separate legal entity was created pursuant to Section 29-1-203, C.R.S. The Authority was created to effect the development and operations and maintenance of the Public Improvements (as defined in the AEA) for the benefit of the District, District No. 1, the residents and property owners. The District, through the Authority, will provide for financing the operations and maintenance of the existing public improvements as well as providing for financing, constructing and operating and maintaining additional public improvements. In no case shall the mill levy imposed by the District for debt service and operations and maintenance exceed its' respective mill levy cap.

NOTE 9 - BEEBE DRAW FARMS AUTHORITY ESTABLISHMENT AGREEMENT (AEA) (CONTINUED)

Commencing in tax collection year 2011 and each year thereafter, District No. 2 shall transfer revenues from the Required O&M Mill Levy into the Authority O&M Account, less the Direct District No. 2 Administrative Costs. For tax collection year 2011 and each year thereafter, District No. 2 shall transfer 100% of all revenues from the Development Fees (if any) into the Infrastructure Account and 80% of all revenues from the District No. 2 Required Mill Levy and Specific Ownership Tax Revenues into the Authority Infrastructure Account. Also for tax collection year 2011 and each year thereafter, District No. 2 shall transfer 20% of all revenues from the District No. 2 Required Mill Levy and Specific Ownership Tax Revenues into the Authority Amenity Account. Upon consent of both District No. 1 and District No. 2, the 80%/20% split described above may be adjusted upward or downward in any given year.

NOTE 10 – CAPITAL PLEDGE AGREEMENT

The District has an Amended and Restated Consolidated Service Plan for Beebe Draw Farms Metropolitan District No. 1 and Beebe Draw Farms Metropolitan District No. 2 approved by the Weld County Board of County Commissioners on March 16, 2011 ("Amended and Restated Service Plan"). Pursuant to the Amended and Restated Service Plan, and subject to the conditions of the Amended and Restated Service Plan, on June 14, 2011, District No. 2 entered into an Initial District No. 2 Capital Pledge Agreement between Beebe Draw Farms Metropolitan District No. 2 and the Beebe Draw Farms Authority (the Original Capital Pledge Agreement), which is a debt instrument with a principal amount of $26,125,508 plus an interest rate of 15%. The mill levy for payment of this obligation is capped at 50 mills, minus the 1998 Bond Mill Levy for each year and less the Operating and Maintenance Mill Levy for each year, to be imposed for collection beginning in 2012 and ending in tax collection year 2051. The total debt repayment will be the lesser of the $26,125,508, plus 15% interest accrued per annum or the total revenue that flows from the imposition of the 50 mills, minus the 1998 Bond Mill Levy and the Operating and Maintenance Mill Levy, over the term of the mill levy imposition.

The District shall be authorized to provide for the financing, design, acquisition, construction and operations and maintenance of additional public improvements the estimated costs which approximate $26,125,508 and as adjusted for inflation approximate $36,000,000 which would be financed through bond issued by the District in an amount not to exceed $36,000,000.

On December 11, 2012, with the support of Beebe Draw Farms Metropolitan District No. 2, Beebe Draw Farms Metropolitan District No. 1 and the Beebe Draw Farms Authority entered into that certain First Amendment to District No. 1 Capital Pledge Agreement ("First Amended Capital Pledge Agreement"), wherein Beebe Draw Farms Authority consented to the issuance of Beebe Draw Farms Metropolitan District No. 1's 2012 Bonds and waived any limitations set forth in the Original Capital Pledge Agreement to the extent necessary for Beebe Draw Farms Metropolitan District No. 1 to issue its 2012 Bonds.