

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

—
FINANCIAL STATEMENTS
December 31, 2010

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Independent Auditor's Report

Board of Directors
Beebe Draw Farms Metropolitan District No. 2

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, 2010, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District. 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 the District, as well as evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinions.

The District has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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, 2010, 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.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
June 14, 2011

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
December 31, 2010

	<u>General Fund</u>	<u>Adjustments Note 12</u>	<u>Statement of Net Assets</u>
ASSETS:			
Cash and investments	\$ 1,256,027	\$ —	\$ 1,256,027
Restricted investments	377,675	—	377,675
Accounts receivable			
Current taxes	5,333	—	5,333
Deferred taxes	859,979	—	859,979
Advances due from District No. 1	—	125,000	125,000
Due from District No. 1	13,862	—	13,862
Capital assets, net	<u>—</u>	<u>7,200,017</u>	<u>7,200,017</u>
Total assets	<u><u>\$ 2,512,876</u></u>	<u><u>7,325,017</u></u>	<u><u>9,837,893</u></u>
LIABILITIES:			
Accounts payable	\$ 34,414	—	34,414
Payroll taxes payable	4,202	—	4,202
Deferred revenue	<u>859,979</u>	<u>—</u>	<u>859,979</u>
Total liabilities	<u><u>898,595</u></u>	<u><u>—</u></u>	<u><u>898,595</u></u>
FUND BALANCE/NET ASSETS:			
Reserved for:			
Emergency	52,000	(52,000)	—
O&M reserve	125,260	(125,260)	—
Debt service	200,415	(200,415)	—
Unreserved	<u>1,236,606</u>	<u>(1,236,606)</u>	<u>—</u>
Total fund balances	<u><u>1,614,281</u></u>	<u><u>(1,614,281)</u></u>	<u><u>—</u></u>
Total liabilities and fund balance	<u><u>\$ 2,512,876</u></u>		
Invested in capital assets		7,200,017	7,200,017
Restricted for:			
Emergency reserve		52,000	52,000
O & M reserve		125,260	125,260
Debt service		200,415	200,415
Unrestricted		<u>1,361,606</u>	<u>1,361,606</u>
Total net assets		<u><u>\$ 8,939,298</u></u>	<u><u>\$ 8,939,298</u></u>

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

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2010

	Governmental Fund Type		
	General Fund	Adjustments Note 12	Statement of Activities
EXPENDITURES/EXPENSES			
Accounting and audit	\$ 28,534	\$ —	\$ 28,534
Depreciation	—	200,064	200,064
District management	69,107	—	69,107
Directors fees	5,700	—	5,700
Payroll taxes	4,099	—	4,099
Election costs	8,659	—	8,659
Facility management	43,302	—	43,302
Master planning	4,400	—	4,400
Repairs and maintenance	3,416	—	3,416
Reserve analysis	13,122	—	13,122
Insurance	9,504	—	9,504
Legal	303,412	—	303,412
Reservoir lease	38,700	—	38,700
Treasurer fees	18,883	—	18,883
Storage	1,500	—	1,500
Equipment maintenance	3,909	—	3,909
District No. 1 administrative expenses	52,859	—	52,859
Physical facilities	42,298	—	42,298
Aquatic facilities	23,445	—	23,445
Equestrian center	10,283	—	10,283
Engineering/Planning	8,833	—	8,833
Other	2,042	—	2,042
Park and recreation	336,444	—	336,444
Reservoir	245	—	245
Signage	404	—	404
Parks and open space	42,028	—	42,028
Roads, trails and ditches	13,640	—	13,640
Infrastructure amenities	212,285	(200,400)	11,885
Transfer to District No. 1	125,000	(125,000)	—
Miscellaneous	5,491	—	5,491
Total expenditures/expenses	1,431,544	(125,336)	1,306,208
REVENUES			
Program revenues — Lease revenue	34,830	—	34,830
— User, pool and parking fees	6,488	—	6,488
— Exclusion cost reimbursements	4,691	—	4,691
General revenues — Property taxes	1,259,140	—	1,259,140
— Specific ownership taxes	77,983	—	77,983
— Investment income	2,118	—	2,118
— Miscellaneous income	1,459	—	1,459
— Transfer from District No. 1	340,284	—	340,284
Total revenues	1,726,993	—	1,726,993
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	295,449	125,336	420,785
FUND BALANCE/NET ASSETS: BEGINNING OF YEAR	1,318,832	7,199,681	8,518,513
END OF YEAR	\$ 1,614,281	\$ 7,325,017	\$ 8,939,298

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

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL Year Ended December 31, 2010

	Original/ Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 1,259,140	\$ 1,259,140	\$ –
Specific ownership taxes	125,913	77,983	(47,930)
Miscellaneous/user fees	2,350	1,789	(561)
Pool fees	3,000	6,158	3,158
Tap fees	11,000	–	(11,000)
Interest income	5,000	2,118	(2,882)
Exclusion cost reimbursements	–	4,691	4,691
Reservoir lease	–	34,830	34,830
Transfer from District No. 1	316,003	340,284	24,281
Total revenues	<u>1,722,406</u>	<u>1,726,993</u>	<u>4,587</u>
EXPENDITURES			
Accounting and audit	11,000	28,534	(17,534)
Association fees	1,800	–	1,800
Directors fees	2,040	5,700	(3,660)
Insurance	8,000	9,504	(1,504)
Legal	100,000	303,412	(203,412)
Reservoir lease	–	38,700	(38,700)
Maintenance	5,000	3,416	1,584
Vehicle/equipment maintenance	2,500	3,909	(1,409)
Payroll taxes	4,000	4,099	(99)
Election costs	–	8,659	(8,659)
Treasurers fees	12,591	18,883	(6,292)
District management	30,000	69,107	(39,107)
Facilities management	42,000	43,302	(1,302)
Master planning	–	4,400	(4,400)
Reserve analysis	–	13,122	(13,122)
District No. 1 administrative expenses	–	52,859	(52,859)
Physical facilities	19,150	42,298	(23,148)
Aquatic facilities	34,300	23,445	10,855
Amenities	414,500	358,251	56,249
Parks and open space	58,300	42,028	16,272
Roads, trails and ditches	2,000	13,640	(11,640)
Infrastructure amenities	1,180,000	212,285	967,715
Loan advance to District No. 1	–	125,000	(125,000)
Miscellaneous	–	6,991	(6,991)
Contingency/emergency reserves	57,815	–	57,815
Total expenditures	<u>1,984,996</u>	<u>1,431,544</u>	<u>553,452</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(262,590)	295,449	558,039
FUND BALANCE – BEGINNING OF YEAR	1,175,235	1,150,682	(24,553)
FUND BALANCE – END OF YEAR	<u>\$ 912,645</u>	<u>\$ 1,446,131</u>	<u>\$ 533,486</u>

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, 2010

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 a consolidated service plan approved by Weld County in May, 1999. The District's service area is located in Weld County, Colorado. The District was established to manage the financing, construction, operation and maintenance of the facilities located within the District and Beebe Draw Farms Metropolitan District No. 1 (District No. 1).

The District is intended to serve as the "service district" and is responsible for day-to-day operations and administrative management for both districts.

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.

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.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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, except those required to be accounted for in other funds.

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.

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.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity

Fund Balance

The fund balances have been reserved for that portion of the fund balance that is legally segregated or is not subject to future appropriation. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management.

Reserved Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. \$52,000 of the General Fund balance has been reserved in compliance with this requirement. Pursuant to the Agreement described in Note 9, the District set aside \$200,415 for a bond reserve, if necessary.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2010 are classified in the accompanying financial statement as follows:

Statement of net assets:

Cash and investments - unrestricted	\$ 1,256,027
- restricted	377,675
	<u>\$ 1,633,702</u>

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

Deposits with financial institutions	\$ 263,773
Investments	1,369,929
	<u>\$ 1,633,702</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.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

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 bank balance of \$263,773 and a carrying balance of \$263,773.

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, 2010, none of the District's bank balance of \$263,773 was exposed to custodial credit risk.

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.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2010

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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, 2010 the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Liquid Asset Trust	Less than one year	\$ 1,369,929

COLOTRUST

As of December 31, 2010 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, 2010, the District has \$1,369,929 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.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2010

NOTE 4 – PROPERTY

The following is an analysis of changes in property for the year ended December 31, 2010:

By Classification	Balance at January 1, 2010	Additions	Reclass/ Retirements	Balance at December 31, 2010
Land	\$ 1,482,975	\$ —	\$ —	\$ 1,482,975
Roads	2,657,297	—	—	2,657,297
Water distribution facilities	1,292,161	—	—	1,292,161
Offsite water facilities	300,000	—	—	300,000
Water capacity	615,260	200,400	—	815,660
Recreation facilities/equipment	2,598,934	—	—	2,598,934
Irrigation and landscape	70,196	—	—	70,196
	9,016,823	200,400	—	9,217,223
Less accumulated depreciation	1,817,142	200,064	—	2,017,207
	<u>\$ 7,199,681</u>	<u>\$ 336</u>	<u>\$ —</u>	<u>\$ 7,200,017</u>

Depreciation expense for the year 2010 is \$200,064.

Water system capacity is provided for 204 lots of which 57 have been connected as of December 31, 2010.

NOTE 5 – INTERGOVERNMENTAL AGREEMENTS

Amended and Restated Intergovernmental Agreement with Beebe Draw Farms Metropolitan District No. 1

On November 3, 2008 the District entered into an Amended and Restated Intergovernmental Agreement (IGA) with District No. 1 in order to better describe and confirm the relationship and understanding between the Districts. The responsibility of District No. 1 is as follows:

District No. 1 will be required to levy property taxes of 40 mills on all property within the District. All property tax revenue received by the District shall first be applied to the payment of the 1998 Bonds, both principal and interest as set out in the Bond documents and all remaining tax revenues will then be transferred to District No. 2 upon receipt. District No. 1 shall be prohibited from retaining, expending, pledging or otherwise encumbering any portion of the pledged revenues. District No. 1 shall adopt, impose and remit to District No. 2 such rates, fees, tolls and charges as established by District No. 2. Upon receipt of notice and the dissolution of District No. 2, District No. 2 shall transfer and District No. 1 shall accept responsibility for the operations and maintenance of all public improvements located within the service area that have not been transferred to the County or other public agency.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2010

NOTE 5 – INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Central Weld County Water District and R.E.I. Limited Liability Company

On June 27, 1995, District No. 1 entered into a contract with the Central Weld County Water District (Water District) and the R.E.I. Limited Liability Company (Developer) (see Note 6). The Developer is planning an eight hundred unit residential development within the District No. 1 and District No. 2 boundaries. District No. 1 or the Developer agreed to construct or reimburse the Water District for construction costs of water facilities directly related to the development. The Water District will assume all operation, maintenance, repair and replacement of all water facilities upon acceptance and completion.

In June 1997, District No. 1 paid the Water District a nonrefundable contribution for the construction of offsite transmission and water storage facilities in the amount of \$300,000. As water rights are obtained, they are given to the Water District in return for the right to agreed upon levels of water capacity.

Under the IGA with District No. 1, the District was assigned ownership of all fixed assets and the responsibility for administration of agreements.

NOTE 6 – 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	<u>\$264,000,000</u>		

The District intends to issue debt in 2011 as described in the Subsequent Events Note 13.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2010

NOTE 7 – 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. During 2010, the Developer leased the clubhouse, aka Community Information and Sale Center from the District for \$6,000. The District entered into a two year land lease with R.E.I. LLC for the equestrian facility beginning in 2006 in the amount of \$1,000 per year. Subsequent to the initial ground lease/arena area, a lease was executed between REI and District 2, effective June 1, 2008 for a two and one half year period at a rental rate of \$2,500 per year, subject to annual appropriation of the District Board. Subsequent to year end the District lease to the Developer of the Community Information and Sales Center was renewed for a one year term subject to annual renewal at a rate of \$1,000 per year.

NOTE 8 – 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, 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 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 9 – 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.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has reserved \$125,134 to comply with this requirement.

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 10 – COMMITMENTS

Operating Lease and Sublease

On March 4, 1987, the Developer (see Note 5) entered into a grazing and recreation lease for Milton Lake and surrounding land in Weld County. Subsequent to that date, the Developer assigned the lease with the Farmers Reservoir and Irrigation Company (“FRICO”) to the District. The lease continues through 2016 and requires annual payments of \$20,000, plus an adjustment for the change in the Consumer Price Index, which amounted to \$38,700 for 2010. The annual payment due over the last 12 years of the lease is subject to renegotiation by both parties. If the fair market rental value of the property increases for any two consecutive years at a rate in excess of the Consumer Price Index adjustment, the rate must increase in accordance with such increased fair market rental value.

The District has also been assigned a hunting sublease with Aristocrat Duck Club for the above described property. The lease income to the District for the year ended December 31, 2010 was \$34,830. The term of the subleases continue through 2016.

NOTE 11 – 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 7) pursuant to which the Developer agreed to pay certain fees to the District 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.

BEEBE DRAW FARMS METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 11 – DEVELOPER FEE AND WATER TAP FEE AGREEMENT (CONTINUED)

On December 5, 2000, this agreement was amended and the Developer agreed to prepay up to \$627,500 in fees at the rate of \$16,000 per lot, 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, 2010, the Developer prepaid \$587,000 in advance developer fees; applied \$227,000 to specific lots, leaving a balance of \$360,000 in prepaid developer fees.

Pursuant to the Intergovernmental Agreement with District No. 2, all fees collected subsequent to December 31, 2001 will be collected and used by District No. 2.

NOTE 12 – RECONCILIATION OF *GOVERNMENT-WIDE* AND FUND FINANCIAL STATEMENTS

Explanation of differences between the governmental fund Balance Sheet and the government-wide Statement of Net Assets

The governmental fund Balance Sheet and the government-wide Statement of Net Assets includes a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Advance due from District No. 1	\$ 125,000
Capital Assets	\$ 7,200,017

Capital assets used in government activities are not financial resources and therefore are not reported in the funds.