

BUCKHORN VALLEY METROPOLITAN DISTRICT NO.

2

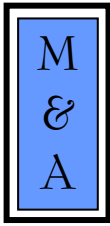
FINANCIAL REPORT

DECEMBER 31, 2004

**Buckhorn Valley Metropolitan District No. 2
Financial Report
December 31, 2004**

Table of Contents

	Page
INDEPENDENT AUDITOR'S REPORT	A1
Management's Discussion and Analysis	B1 – B3
Government-wide Financial Statements:	
Statement of Net Assets	C1
Statement of Activities	C2
Fund Financial Statements:	
Governmental Funds Balance Sheet	C3
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances	C4
Notes to the Financial Statements	D1 – D10
Required Supplementary Information:	
Schedule of Revenues and Expenditures - Budget and Actual – General Fund	E1
Supplementary Information:	
Schedule of Revenues and Expenditures - Budget and Actual – Debt Service Fund	F1
Schedule of Bonds Payable to Maturity	F2
History of Assessed Valuation, Mill Levy and Property Taxes Collected	F3



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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Buckhorn Valley Metropolitan District No. 2
Gypsum, Colorado**

We have audited the accompanying financial statements of the governmental activities and the General and Capital Projects Funds of the Buckhorn Valley Metropolitan District No. 2, (the "District"), as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 opinion.

In our opinion, the governmental activities and the General and Capital Projects Funds referred to above present fairly, in all material respects, the financial position of Buckhorn Valley Metropolitan District No. 2 at December 31, 2004 and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis in Section B is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

The budgetary schedule of revenues and expenditures on page E1 is not a required part of the basic financial statements but is required supplementary information required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying financial information listed as Supplementary Information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of the District. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McMahan and Associates, LLC.

**McMahan and Associates, L.L.C.
February 4, 2005**

Performing services for local governments throughout Colorado

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Buckhorn Valley Metropolitan District Number 2

Management's Discussion and Analysis December 31, 2004

As management of Buckhorn Valley Metropolitan District Number 2 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2004.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-wide financial statements The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases 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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District during 2004 was the funding for the costs of infrastructure construction performed by Buckhorn Valley Metropolitan District No. 1. There are currently no business-type activities of the District.

The government-wide financial statements can be found on pages C1 and C2 of this report.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently has two funds, a General Fund and a Debt Service Fund, both of which are governmental funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide activities.

Overview of the Financial Statements (continued)

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages D1 – D10 of this report.

Government-wide Financial Analysis

The following tables show condensed financial information derived from the government-wide financial statements. Comparative information is not available for the current year and will be included in subsequent years.

Condensed Statement of Net Assets Governmental Activities

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets	\$ 1,528,739	\$ 1,751,899
Non-current assets	1,661,417	1,278,149
Total Assets	<u>\$ 3,190,156</u>	<u>\$ 3,030,048</u>
Liabilities:		
Current liabilities	\$ 115,708	\$ 116,722
Long-term liabilities	8,356,888	7,808,184
Total Liabilities	<u>\$ 8,472,596</u>	<u>\$ 7,924,906</u>
Net assets:		
Restricted for emergencies	170	37
Unrestricted	(5,282,610)	(4,894,895)
Total Net Assets	<u>\$ (5,282,440)</u>	<u>\$ (4,894,858)</u>

Condensed Statement of Activities Governmental Activities

	<u>2004</u>	<u>2003</u>
Revenues:		
Property tax	\$ 105,970	\$ 47,834
Specific ownership tax	6,528	2,776
Net investment income	24,601	21,936
Total Revenues	<u>137,099</u>	<u>72,546</u>
Expenses:		
General government	349,531	177,756
Interest	175,150	145,983
Total Expenses	<u>524,681</u>	<u>323,739</u>
Change in net assets	<u>(387,582)</u>	<u>(251,193)</u>
Net assets, January 1	<u>(4,894,858)</u>	<u>(4,643,665)</u>
Net assets, December 31	<u>\$ (5,282,440)</u>	<u>\$ (4,894,858)</u>

The District's primary function is to finance the construction of the infrastructure serving the constituents of Buckhorn Valley. The infrastructure is constructed by Buckhorn Valley Metropolitan District Number 1 ("BVMD No. 1") and the District is obligated to ultimately pay BVMD No. 1 for its construction costs and for the costs BVMD No. 1 incurs to operate and maintain the infrastructure. The District's obligation to BVMD No. 1 has been reflected on the balance sheet as a long term capital obligation along with the District's long term obligation for bonds issued in 2003. The offset to the District's capital obligation to BVMD No. 1 has been reflected as a deposit on capital assets constructed by BVMD No. 1.

Government-wide Financial Analysis (continued)

The primary activity of the District during 2004 was payments of interest on the bonds and payments to BVMD No. 1 to pay for a portion of the District's long term obligation. A portion of the funds the District borrowed have been paid to BVMD No. 1 in partial settlement of the District's obligation and the remainder of the funds are being held in escrow and will be released at the rate of \$9,500 per home as new homes are constructed. Additionally, the District anticipates issuing additional bonds as it has the ability in future years to pay the remainder of its obligation to BVMD No. 1.

Financial Analysis of the District's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District utilizes a General Fund for its general operating activities (which are very minor at this time) and a debt service fund to reflect the activities related to its long term obligations. The Debt Service Fund reflects the payment of a portion of the 2003 bond proceeds to BVMD No. 1 and the remaining escrowed portion of those funds are reflected as an asset of the District at December 31, 2004.

Budget variances in the General and Debt Service Funds The activity level in the District's General Fund is minimal and the only significant variance was an unbudgeted transfer in from the Debt Service Fund to help cover operating costs. The District's primary activity is reflected in the Debt Service fund and the only significant budget variance was a lower than expected requirement for payments from the District to BVMD No. 1 for repayment of development costs.

Long-term debts The District's long term debts consist of the capital obligation to BVMD No. 1 as described more fully in Note V.C. and the bonds payable as described in Note IV.B. to the Financial Statements.

Next year's budget and rates. The District primary activity budgeted for 2005 is the continued payment of the escrowed bond funds to BVMD No. 1 as new homes are constructed and the collection of property taxes to pay the debt service on the bonds.

Request 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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robertson & Marchetti, PC, 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Buckhorn Valley Metropolitan District No. 2
Statement of Net Assets
December 31, 2004

	Statement of Net Assets
Assets:	
Cash and equivalents	170,182
Cash and equivalents - restricted	1,247,747
Due from other governments	538
Property tax receivable	110,272
Bond issue costs, net	102,185
Deposit on capital assets constructed by BVMD No. 1	1,559,232
Total Assets	3,190,156
 Liabilities:	
Due to other governments	5,436
Deferred property tax	110,272
Accrued interest	14,583
Capital obligation to BVMD No. 1	4,907,398
Service obligation to BVMD No. 2	934,907
Bonds payable in more than one year	2,500,000
Total Liabilities	8,472,596
 Net Assets:	
Restricted for emergencies	170
Unrestricted	(5,282,610)
Total Net Assets	(5,282,440)

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

Buckhorn Valley Metropolitan District #2
Statement of Activities
For the Year Ended December 31, 2004

	Expenses	Net (Expense) and Change in Net Assets
		Governmental Activities
Primary Government:		
Governmental Activities:		
General government	349,531	(349,531)
Interest on long-term debt	175,150	(175,150)
Total Governmental Activities	524,681	(524,681)
Total Primary Government	524,681	(524,681)
General revenues:		
Taxes:		
Property tax, levied for general purposes		105,970
Specific ownership tax		6,528
Investment earnings		24,601
Total general revenues, special items, and transfers		137,099
Change in Net Assets		(387,582)
Net assets - Beginning	(59,343)	
Prior period adjustment	(4,835,515)	
Net Assets - Beginning (restated)		(4,894,858)
Net Assets - Ending		(5,282,440)

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

FUND FINANCIAL STATEMENTS

Buckhorn Valley Metropolitan District No. 2
Governmental Funds Balance Sheet
December 31, 2004

	General Fund	Debt Service Fund	Total
Assets:			
Cash and equivalents	13,747	156,435	170,182
Cash and equivalents - restricted	-	1,247,747	1,247,747
Due from other governments	-	538	538
Property tax receivable	-	110,272	110,272
Total Assets	13,747	1,514,992	1,528,739
Liabilities:			
Due to other governments	5,436	-	5,436
Deferred property tax	-	110,272	110,272
Total Liabilities	5,436	110,272	115,708
Fund Balances			
Fund Balances:			
Reserved for emergencies	170	-	170
Reserved for debt service	-	1,404,720	1,404,720
Unreserved	8,141	-	8,141
Total Fund Balances	8,311	1,404,720	1,413,031
Total Liabilities and Fund Balances	13,747	1,514,992	

Reconciliation to Statement of Net Assets:
Fund Balance (as reported above)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Bond issue costs related to governmental activities are not financial resources and are therefore not reported in the funds.

102,185

The District's obligation in excess of deposits held by the BVMD #2 towards payment for infrastructure built on behalf of the District represent long-term liabilities and are not reported in the funds.

(4,283,073)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

(2,514,583)

Net Assets of Governmental Activities

(5,282,440)

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

Buckhorn Valley Metropolitan District No. 2
Statement of Governmental Fund Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2004

	General Fund	Debt Service Fund	Total
Revenues:			
Property tax	-	105,970	105,970
Specific ownership tax	-	6,528	6,528
Net investment income	47	24,554	24,601
Total Revenues	47	137,052	137,099
Expenditures:			
Intergovernmental	-	174,746	174,746
Audit	4,100	-	4,100
Insurance	1,535	-	1,535
Office supplies and overhead	34	-	34
Paying agent fees	-	500	500
Treasurer fees	-	3,180	3,180
Interest	-	175,150	175,150
Total Expenditures	5,669	353,576	359,245
Excess (Deficiency) of Revenues Over Expenditures	(5,622)	(216,524)	(222,146)
Other Financing Sources (Uses):			
Transfers in (out)	11,942	(11,942)	-
Total Other Financing Sources (Uses):	11,942	(11,942)	-
Net Change in Fund Balance	6,320	(228,466)	(222,146)
Fund Balance - Beginning	1,991	1,633,186	1,635,177
Fund Balance - Ending	8,311	1,404,720	1,413,031

Reconciliation to Statement of Activities, Changes in Net Assets:

Net Change in Fund Balance of Capital Projects Fund (above) (222,146)

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

Construction of fixed assets and performance of services by BVMD #1 creates a liability of the District. This liability is decreased both by cash payments made by the District and through revenues earned from other sources by BVMD #1. Additionally, depreciation related to assets held by BVMD #1 reduce the value of the deposit on capital assets to be conveyed to the District. (160,058)

Governmental funds report bond issue costs as expenditures when paid. However, in the Statement of Activities, the cost of those assets is allocated over the term of the underlying bonds as amortization expense. (5,378)

Change in Net Assets of Governmental Activities (387,582)

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

NOTES TO THE FINANCIAL STATEMENTS

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004

I. Summary of Significant Accounting Policies

Buckhorn Valley Metropolitan District No. 2 (the "District") was established on May 2, 2000, as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was formed primarily to finance construction and operation of the basic public infrastructure in an area of approximately 368 acres of land near the Town of Gypsum, Colorado.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of the primary government and component units. Component units are legally separate entities that are included in a government's reporting entity because of the significance of their operating or financial relationships with the government. The District has no component units, and it is not a component unit of any other entity.

B. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Currently, the District has only governmental activities.

1. Government-wide Financial Statements

In the government-wide Statement of Net Assets, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in two parts: invested in capital assets, net of related debt; and unrestricted net assets.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

2. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

The District reports the following funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

I. Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

2. Fund Financial Statements (continued)

The *Debt Service Fund* is used to account for the accumulation of financial resources to be used for the payment of general long-term debt principal, interest, and other related costs.

C. Measurement Focus and Basis of Accounting

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

1. Long-term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

D. Financial Statement Accounts

1. Cash and Cash Equivalents

Cash and cash equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with maturities of three months or less.

2. Interfund Receivables and Payables

Balances at year-end between funds are reported as "due to / from other funds" in the fund financial statements.

3. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by the governmental entities until the subsequent year. In accordance with generally accepted accounting principles, the assessed but uncollected property taxes have been recorded as a receivable and as deferred revenue.

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

4. Reserved Fund Balance

The General Fund had a reserved fund balance of \$170 for emergency as required under TABOR (see Note III. B.).

The Debt Service Fund has a reserved fund balance of \$1,404,720 for the payment of general long-term debt principal, interest, and other related costs.

5. Bond Issue Costs

Issue costs for bonds are deferred and amortized over the terms of the bonds using the straight-line method in the Statement of Net Assets.

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

7. Deposit on Capital Assets Held by BVMD #1

This item represents expenditures of Buckhorn Valley Metropolitan District #1 ("BVMD #1") for capital assets under the District Facilities Construction and Service Agreement discussed in Note V below. Under that agreement, BVMD #1 constructs and maintains assets on behalf of the District. Over time, the District is to reimburse BVMD #1 and, upon certain criteria being met, the assets will be conveyed to the District or to other governmental entities. As the costs are incurred by BVMD #1, they are accumulated and deferred pending the conveyance of the fixed assets to the District.

8. Capital and Service Obligations to BVMD #1

The District is obligated under the District Facilities Construction and Service Agreement (Note V) to reimburse BVMD #1 over time for the cost of the infrastructure constructed by BVMD #1. Additionally, the District is obligated to reimburse BVMD #1 for certain operating costs. Cash payments made by the District to BVMD #1 and revenues earned by BVMD #1 from outside parties reduce the amount of the liability. This item represents the portion of the obligation that has not yet been paid by the District as of December 31, 2004.

II. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the Governmental Funds Balance Sheet and the government-wide Statement of Net Assets

The governmental fund Balance Sheet includes reconciliation between *fund balance – governmental funds* and *net assets of governmental activities* as reported in the government-wide Statement of Net Assets. One element of that reconciliation explains that "Bond issue costs related to governmental activities are not financial resources and are therefore not reported in the funds. The adjustment amount of \$102,185 represents bond issue costs of \$112,941 less accumulated amortization of \$10,756.

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

II. Reconciliation of Government-wide and Fund Financial Statements (continued)

A. Explanation of certain differences between the Governmental Funds Balance Sheet and the government-wide Statement of Net Assets (continued)

Another element of that reconciliation states “the District's obligation in excess of deposits held by the BVMD #2 towards payment for infrastructure built on behalf of the District represent long-term liabilities and are not reported in the funds.” The details of this \$4,283,073 difference are the District’s long-term capital and service obligations to BVMD #1 \$4,907,398 and \$934,907, respectively, less deposits on capital assets constructed by BVMD of \$1,559,232.

Another element of that reconciliation states “Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$2,514,583 difference are bonds payable of \$2,500,000 and accrued interest of \$14,583.

B. Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes reconciliation between *net change in fund balances of governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation explains that “Construction of fixed assets and performance of services by BVMD #1 create a liability of the District. This liability is decreased both by cash payments made by the District and through revenues earned from other sources by BVMD #1. Additionally, depreciation related to assets held by BVMD #1 reduce the value of the deposit on capital assets to be conveyed to the District.” The details of this \$160,058 difference are as follows:

Change in deposit on capital assets	\$	388,706
Change in capital obligation		(184,968)
Change in service obligation		(363,796)
Total	\$	<u>(160,058)</u>

III. Stewardship, Compliance, and Accountability

A. Budgets and Budgetary Accounting

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles (“GAAP”).

As required by Colorado statutes, the District followed the following timetable in approving and enacting a budget for the ensuing years:

- (1) For the 2004 budget year, prior to August 25, 2003, the County Assessor sent to the District the certified assessed valuation of all taxable property within the District’s boundaries and prior to December 10, 2003, the County Assessor sent the final recertified assessed valuation to the District.

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

III. Stewardship, Compliance, and Accountability (continued)

A. Budgets and Budgetary Accounting (continued)

- (2) On or before October 15, 2003, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) The Board held a public hearing on the proposed budget and capital program no later than 45 days prior to the close of the fiscal year.
- (4) For the 2004 budget, prior to December 15, 2003, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2004 budget, the final budget and appropriating resolution was adopted prior to December 31, 2003.
- (6) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2003 were collected in 2004 and taxes certified in 2004 will be collected in 2005. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 15th.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly know as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

III. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending. The District has reserved \$170, which is the approximate required reserve at December 31, 2004.

On May 2, 2000, the District's voters approved an increase in debt up to \$21,780,000 and a related increase in taxes up to \$25,700,400, annually, or by such lesser annual amount as may be necessary to pay the District's debt. The debt is to be incurred for the acquisition, construction, or otherwise providing infrastructure, facilities, and other improvements, and mosquito control and for the provision of the operation services. All debt and tax increases constitute voter-approved revenue changes and are to be collected and spent by the District without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the District.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

IV. Detailed Notes on All Funds

A. Deposits and Investments

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. The PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

There are three categories of deposit credit risk as follows:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- (3) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

IV. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

At December 31, 2004, the District's bank deposits were entirely insured or collateralized with securities held by the entity's agent and had bank and book balances of \$1,417,929, of which, \$100,000 was Category 1 and \$1,317,929 was Category 3. Of the total balance, \$1,247,747 is held by a trustee and restricted for purposes of meeting obligations under the issuance of the Series 2003 General Obligation Bonds discussed below.

B. Long-term Debt

1. Limited Tax General Obligation Bonds, Series 2003 (the "Bonds")

The District issued \$2,500,000 of general obligation bonds dated March 1, 2003, with interest of 7.00% payable on June 1 and December 1 to finance the acquisition, construction, and equipping of a public works and administration facility and fire protection facilities. Unexpended Bond proceeds are held by a trustee. The principal on the bonds is payable on December 1 and matures in various increments from 2007 through 2023. The Bonds are subject to mandatory redemption to the extent monies are still held by the trustee on September 1, 2007. Bonds maturing on and after December 1, 2013 are subject to optional redemption at the option of the District without redemption premium upon payment of principal plus accrued interest to the redemption date.

The bonds are limited tax general obligations of the District, payable from ad valorem taxes to be imposed, at a total rate not to exceed 40 mills, adjusted for any changes in law and changes in the assessment ratio.

2. Changes to Long-term Debt

Changes to long-term debt during the year ended December 31, 2004 were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Series 2003 GO Bonds	\$ 2,500,000	-	-	2,500,000

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

IV. Detailed Notes on All Funds (continued)

B. Long-term Debt (continued)

3. Annual Debt Service Requirements

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	175,000	175,000
2006	-	175,000	175,000
2007	-	175,000	175,000
2008	-	175,000	175,000
2009	-	175,000	175,000
2010 - 2014	75,000	872,550	947,550
2015 - 2019	345,000	804,650	1,149,650
2020 - 2023	2,080,000	541,800	2,621,800
Total	<u>\$ 2,500,000</u>	<u>3,094,000</u>	<u>5,594,000</u>

V. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and general liability. The District carries commercial coverage for these risks and does not expect claims to exceed coverage.

B. Related Party Transactions

Four members of the District's Board of Directors have a direct financial interest in Roark Partners, LLLP (the "Developer"). Three of the five District's Directors are employees of the Developer. Of the remaining two Directors, one is the general partner of the Developer and the other is the spouse of an employee of the Developer.

C. District Facilities Construction and Service Agreement

The Agreement generally provides that Buckhorn Valley Metropolitan District No. 2 (the "Taxing District") will pay to Buckhorn Valley Metropolitan District No. 1 (the "Operating District") over a period of years the costs of (1) the construction, acquisition, and equipping of certain public facilities and services (the "Facilities"), and (2) the operation and maintenance of the Facilities.

The Agreement states that the obligation to pay the amounts required there under is a general obligation debt of the Taxing District subject to certain limitations, and as such the question of whether the Taxing District should enter into and perform the Agreement was submitted at an election called for such purpose and held on May 2, 2000. The question was approved by the electorate.

Under the Agreement, the Taxing District covenants to levy the taxes necessary, together with other available funds, to meet the payment obligations set forth in the Agreement.

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

V. Other Information (continued)

C. District Facilities Construction and Service Agreement (continued)

In return for the payment of the monies required to be paid under the Agreement, the Operating District agrees to (1) acquire, construct and equip the Facilities, (2) thereafter provide for their operation and maintenance, and (3) utilizing the Facilities, provide or have others provide to the property within, and the inhabitants of both districts, all related services (the "Services"), including but not limited to water and sanitation services, street maintenance, television services, parks and recreation services and mosquito control services, as well as certain administrative services.

As set forth in the Agreement, though the total obligation of the Taxing District represented by the Agreement will be treated for financial disclosure purposes as a \$21,780,000 debt obligation, the actual obligations to provide for the construction, acquisition and equipping of the Facilities, and for the provision of the Services, are classified as two separate obligations and each is contingent and limited to the extent that the Taxing District is able to meet its obligations through certain limited means. In the case of the Facilities, except as provided below, in any given year the Taxing District is obligated to fund its construction and acquisition only to the extent it would be capable of funding it through the issuance of general obligation debt in an aggregate principal amount not to exceed the greater of \$2 million or 50% of the assessed value of the taxable property lying within the boundaries of the Taxing District as they may, from time to time, be enlarged.

Such general obligation debt limitation is subject to automatic increase if applicable Colorado law increases the amount by which such debt may be issued. The Taxing District has the option in any year to pay for the construction, acquisition and equipping costs of the Facilities on an annual basis pursuant to the provisions of and the schedule set forth in the Agreement.

Similarly, in the case of the Services, in any given year the Taxing District is obligated to fund its costs only to the extent it is capable of funding through tax revenues resulting from the certification by the Taxing District against the assessed value of the taxable property lying within its boundaries, as such boundaries may from time to time be enlarged, to 49 mills.

To the extent that in any year the Taxing District does not fund its obligations under the Agreement, the amounts not funded are carried forward as obligations in future years under the Agreement. In addition, the Operating District may supplement the revenues from the Taxing District through the imposition of fees against the properties and inhabitants of the Taxing District for the services the Operating District provides.

The Agreement may be terminated by either district upon one year's notice, provided that the Taxing District may terminate the agreement only if, prior to the time of termination, all remaining payments and financial obligations set forth in the Agreement are paid to the Operating District in full.

Buckhorn Valley Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2004
(Continued)

V. Other Information (continued)

C. District Facilities Construction and Service Agreement (continued)

The Operating District may terminate the Agreement only if, in the context of the termination, the Operating District either (1) transfers to the Taxing District, free and clear and in its entirety, its interest in the Facilities and in each and every one and all of the water rights, contracts, leases, easements, properties held in fee, and any other personal, real or intangible property then held or owned by the Operating District and necessary for the continued provision of the Services, or (2) makes the transfer to another governmental entity or entities pursuant to such terms and conditions for the continued provision of the Facilities and Services as may be satisfactory to the Board of Directors of the Taxing District or, (3) in the event the Operating District is dissolving in accordance with Colorado law, makes the transfer pursuant to such terms and conditions for the continued provision of the Facilities and Services as may be held in accordance with that law by an appropriate Colorado Court.

During the year ended December 31, 2003, the Taxing District issued general obligation bonds totaling \$2,500,000. During the year ended December 31, 2004, the Taxing District remitted to the Operating District \$161,500 for the repayment of debt incurred by the Operating District in the construction of facilities. Additionally, \$13,246 was remitted or due from the Taxing District to the Operating District for payment of certain operating expenses.

D. Restatement of Prior Year Balances

Beginning net assets of the District have been restated to reflect correction of the calculation of deposits on capital assets constructed by BVMD #1 and the capital obligation of the District to BVMD #1 as of December 31, 2003.

E. Expenditures in Excess of Appropriations

Title 29 of the Colorado revised statutes prohibits governmental entities from expending funds in excess of appropriations. During the year ended December 31, 2004, the District's general fund expended funds in excess of appropriations and may have been in violation of this statute.

REQUIRED SUPPLEMENTARY INFORMATION

Buckhorn Valley Metropolitan District No. 2
Statement of Revenues and Expenditures
Budget and Actual
General Fund
For the Year Ended December 31, 2004

	<u>2004</u>			<u>Variance Positive (Negative)</u>	<u>2003</u>
	<u>Original Budget</u>	<u>Amended And Final Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues and Other					
Financing Sources:					
Net investment income	35	35	47	12	33
Transfer from other fund	-	-	11,942	11,942	1,435
Total Revenues and Other Financing Sources	<u>35</u>	<u>35</u>	<u>11,989</u>	<u>11,954</u>	<u>1,468</u>
Expenditures:					
Operating:					
Audit	-	-	4,100	(4,100)	-
Insurance	1,625	1,625	1,535	90	1,042
Legal	-	-	-	-	18
Elections, Notices, Publications	1,500	1,500	-	1,500	-
Office supplies and overhead	100	100	34	66	172
Total Expenditures	<u>3,225</u>	<u>3,225</u>	<u>5,669</u>	<u>(2,444)</u>	<u>1,232</u>

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

SUPPLEMENTARY INFORMATION

Buckhorn Valley Metropolitan District No. 2
Statement of Revenues and Expenditures
Budget and Actual
Debt Service Fund
For the Year Ended December 31, 2004

	<u>2004</u>		Variance Positive (Negative)	<u>2003</u>
	Original And Final Budget	Actual		Actual
Revenues and Other Financing Sources:				
Property tax	105,289	105,970	681	47,834
Specific ownership tax	6,317	6,528	211	2,776
Net investment income	17,253	24,554	7,301	21,903
Bond proceeds	-	-	-	2,500,000
Total Revenues and Other Financing Sources	<u>128,859</u>	<u>137,052</u>	<u>8,193</u>	<u>2,572,513</u>
Expenditures and Other Financing Uses:				
Intergovernmental				
Capital obligation contribution to BVMD No. 1	285,000	161,500	123,500	712,500
Service fees to BVMD No. 1	13,161	13,246	(85)	5,979
Paying agent fees	-	500	(500)	-
Treasurer fees	3,159	3,180	(21)	1,435
Bond issue costs	-	-	-	112,941
Interest	175,000	175,150	(150)	131,400
Transfer to other fund	3,159	11,942	(8,783)	1,435
Total Expenditures and Other Financing Uses	<u>479,479</u>	<u>365,518</u>	<u>113,961</u>	<u>965,690</u>

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

Buckhorn Valley Metropolitan District No. 2
Schedule of Debt Service Requirements to Maturity
December 31, 2004

Bonds and Interest Maturing in the Year Ending December 31,	\$2,500,000		
	Series 2003 General Obligation Bonds, Interest Rate of 7.00%		
	Principal	Interest	Total
2005	-	175,000	175,000
2006	-	175,000	175,000
2007	-	175,000	175,000
2008	-	175,000	175,000
2009	-	175,000	175,000
2010	-	175,000	175,000
2011	-	175,000	175,000
2012	5,000	175,000	180,000
2013	25,000	174,650	199,650
2014	45,000	172,900	217,900
2015	55,000	169,750	224,750
2016	65,000	165,900	230,900
2017	70,000	161,350	231,350
2018	75,000	156,450	231,450
2019	80,000	151,200	231,200
2020	90,000	145,600	235,600
2021	100,000	139,300	239,300
2022	110,000	132,300	242,300
2023	1,780,000	124,600	1,904,600
Total	2,500,000	3,094,000	5,594,000

Buckhorn Valley Metropolitan District No. 2
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected
December 31, 2004

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>	<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
<u>2004</u>	<u>2,448,580</u>	<u>43.000</u>	<u>Levied</u>	<u>Collected</u>	<u>100.65%</u>
Estimated for 2005	2,564,470	43.000	110,272		

NOTE:

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