

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**MONAHAN
LAMPMAN
& HAYS, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Buckhorn Valley Metropolitan District No. 2

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Buckhorn Valley Metropolitan District No. 2, as of and for the year ended December 31, 2007, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Buckhorn Valley Metropolitan District No. 2, as of December 31, 2007 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 8 and 29, respectively, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, consisting 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 thereon.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Buckhorn Valley Metropolitan District No. 2's basic financial statements, taken as a whole. The accompanying financial information listed as other supplemental information in the table of contents, and presented on page 30 is for purposes of additional analysis and is not a required part of the basic financial statements. 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 aspects, in relation to the basic financial statements taken as a whole.


MONAHAN, LAMPMAN & HAYS, P.C.

May 1, 2008

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended December 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Buckhorn Valley Metropolitan District No. 2 was formed May 2, 2000 along with Buckhorn Valley Metropolitan District No. 1 as part of a multiple District structure for the purpose of providing public improvements for the use and benefit of the Districts' residents and taxpayers. Buckhorn Valley Metropolitan District No. 2 has been established as the "Financing District" which is responsible for providing the funding and tax base needed to support the costs of District capital improvements. Buckhorn Valley Metropolitan District No. 1 has been established as the "Service District" which is responsible for managing the construction and operation of facilities and improvements needed for Buckhorn Valley. Each District is governed by an elected Board of Directors which is responsible for setting policy, appointing personnel and adopting an annual budget in accordance with state statutes.

The discussion and analysis of the Buckhorn Valley Metropolitan District No. 2's financial performance provides an overall review of the District's financial activities for the fiscal year. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should be read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the District's overall financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended December 31, 2007 are as follows:

- In total, the District's *overall* net assets decreased \$2,350,133, or 23%, from the previous fiscal year, primarily due to increases in the District's Capital and Service Obligations to Buckhorn Valley Metropolitan District No. 1.
- General Revenues accounted for \$295,804, which is 100% of all revenues. These general revenues include taxes, grants and entitlements not restricted to specific programs, and general interest and other revenues not related to specific programs.
- The District had \$2,645,937 in expenses, of which \$2,452,273 was related to the District's Facilities Construction and Service Agreement with Buckhorn Valley Metropolitan District No. 1 and \$174,496 was for interest and fiscal charges on the 2003 series General Obligation Bonds. The remaining amount of \$19,168 was for general government operations.

USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two types of information on the same statement that present different views of the District:

- *Government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- *Fund financial statements* that focus on *individual parts* of the District government, reporting the District's operations *in more detail* than the government-wide statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Additional supplemental information has also been included to enhance the reader's understanding of the financial statements.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended December 31, 2007

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Assets and Statement of Activities

While this report contains all funds used by the District to provide programs and activities, the statement of net assets and the statement of activities overall view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the current fiscal year?"

The statement of net assets and statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash was received or paid. The focus of the government-wide financial statements is on the overall financial position and activities of the District; therefore, the statement of net assets and the statement of activities are constructed around the concept of an overall primary reporting government, which includes all funds of the District.

The statement of net assets and the statement of activities report the District's *net assets* and changes in those assets. The District's net assets – the difference between assets and liabilities – are one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets is one indicator of whether its *financial health* is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and condition of infrastructure, are needed to assess the *overall health* of the District.

In the statement of net assets and the statement of activities, District operations are reported as a "Governmental Activity." Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues. All of the District's programs and services are currently reported here, which were primarily the construction of District infrastructure. There are currently no business-type activities of the District.

FUND FINANCIAL STATEMENTS

The fund financial reports provide more detailed information about the District's *funds*, focusing on its most significant funds – not on the District as a whole. The District has one major governmental fund, the General Fund. Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Such information may be useful in evaluating a government's near-term financing requirements.

Governmental Funds

The District's activity is reported as a governmental fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. The funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is provided in reconciliations following the fund financial statements. The District maintains the following governmental fund:

General Fund – The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

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

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.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended December 31, 2007

THE DISTRICT AS A WHOLE

The District is the "Financing District" in a dual district structure whereby Buckhorn Valley Metropolitan District No. 1 ("BVMD No.1) is constructing, operating and maintaining the infrastructure for the constituents of the District. The District entered into a District Facilities Construction and Service Agreement with BVMD No. 1 pursuant to which BVMD No. 1 is obligated to construct and provide the initial financing for the primary infrastructure for the District. The District will ultimately pay a "capital obligation" to reimburse BVMD No. 1 for the cost to install the infrastructure. The District will also pay a "service obligation" to reimburse BVMD No. 1 for the operating costs associated with administering and maintaining the assets until they are conveyed to BVMD No. 2 or to the Town of Gypsum, Colorado.

Statement of Net Assets

The perspective of the statement of net assets is of the District as a whole. Following is a summary of the District's net assets for the current and prior fiscal year:

	<u>Governmental Activities</u>		
	<u>2007</u>	<u>2006</u>	<u>Increase(Decrease)</u>
<u>ASSETS:</u>			
Current and Other Assets	\$ 473,813	\$ 1,130,042	\$ (656,229)
Non-current Assets	<u>86,051</u>	<u>91,429</u>	<u>(5,378)</u>
Total Assets	<u>559,864</u>	<u>1,221,471</u>	<u>(661,607)</u>
<u>LIABILITIES:</u>			
Current Liabilities	364,299	296,693	67,606
Non-current Liabilities	<u>12,772,622</u>	<u>11,151,702</u>	<u>1,620,920</u>
Total Liabilities	<u>13,136,921</u>	<u>11,448,395</u>	<u>1,688,526</u>
<u>NET ASSETS:</u>			
Restricted	194	215	(21)
Unrestricted	<u>(12,577,251)</u>	<u>(10,227,139)</u>	<u>(2,350,112)</u>
Total Net Assets	<u>\$ (12,577,057)</u>	<u>\$ (10,226,924)</u>	<u>\$ (2,350,133)</u>

The District's primary function is to finance the construction of the infrastructure serving the constituents of Buckhorn Valley. As such, the infrastructure is constructed by BVMD No. 1 and the District is obligated to ultimately reimburse BVMD No. 1 for its construction costs and for the costs incurred 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. BVMD No. 2 anticipates issuing bonds and paying the proceeds from the bond issuance to BVMD No. 1 to fulfill these obligations in future years.

The District's overall financial position, as measured by net assets, decreased by \$2,350,133. This resulted primarily from increases in the District's Capital and Service Obligations to BVMD No. 1, as well as current year debt service interest and fee payments of \$174,496 paid from the District's current assets. Final bond escrow reserve amounts have been fully released and were used for bond redemption purposes, resulting in a reduction in current assets and outstanding bond debt.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended December 31, 2007

Statement of Activities

The statement of activities reflects the cost of program services and the changes for services and sales, grants, and contributions offsetting those services. The following detail reflects the total cost of services supported by program revenues and general property taxes, unrestricted state entitlements, and other general revenues, resulting in the overall change in net assets for the fiscal year 2007:

	<u>Governmental Activities</u>		
	<u>2007</u>	<u>2006</u>	<u>Increase(Decrease)</u>
<u>REVENUES:</u>			
<i>Program Revenues:</i>			
Charges for Services & Sales	\$ -	\$ -	\$ -
Operating Grants & Contributions	-	-	-
Capital Grants & Contributions	-	-	-
<i>General Revenues:</i>			
Property and Other Taxes	259,288	147,387	111,901
Interest & Investment Earnings	<u>36,516</u>	<u>39,910</u>	<u>(3,394)</u>
Total Revenues	<u>295,804</u>	<u>187,297</u>	<u>108,507</u>
<u>EXPENSES:</u>			
General Government	19,168	16,703	2,465
Intergovernmental	2,452,273	1,389,682	1,062,591
Interest and Other Fiscal Charges	<u>174,496</u>	<u>176,250</u>	<u>(1,754)</u>
Total Expenses	<u>2,645,937</u>	<u>1,582,635</u>	<u>1,063,302</u>
Increase (Decrease) in Net Assets	<u>\$ (2,350,133)</u>	<u>\$ (1,395,338)</u>	<u>\$ (954,795)</u>

The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The District's primary activity during the current year was the payment of interest on the bonds and payments to BVMD No. 1 towards the District's long-term intergovernmental obligations to BVMD No. 1. Property taxes increased due to increases in the overall assessed valuation of property in the District. Specific ownership taxes, which are dependent upon the number of vehicles registered in the county and are beyond the control of District management, were comparable to the prior period.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended December 31, 2007

THE DISTRICT'S GENERAL FUND

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 and a Debt Service Fund to reflect the activities related to its long-term obligations. The fund level financial statements focus on how services were financed in the short-term as well as what remains for future spending. As discussed above, for financial reporting purposes the District's General Fund and Debt Service Fund are considered governmental funds and are reported on the modified accrual basis of accounting. At the fund level, under the modified accrual basis of accounting, depreciable assets and their related depreciation expense are not reflected as they are not a current period financial resource or use. In addition, at the fund level, any inflows from loans are presented as a revenue item while outflows for capital outlay and any debt service payments are presented as an expenditure item, as these items represent current period financial resources and uses.

The District's General Fund is primarily supported from interfund transfers. The General Fund ending fund balance increased from \$17,422 to \$20,480 during the fiscal year. This represents the excess of current period revenues (financial sources) over current period expenditures (financial uses). The ending fund balance of \$20,480 is the amount of net resources available for future spending.

The District's Debt Service Fund is primarily supported from property and other taxes. The Debt Service Fund ending fund balance decreased from \$830,510 to \$101,051 during the fiscal year. This represents the excess of current period revenues (financial sources) over current period expenditures (financial uses). The ending fund balance of \$101,051 is the amount of net resources available for future debt service.

The District, pursuant to the TABOR Amendment, reserves funds for emergencies. As discussed in *Note 10* of the financial statements, the District reserves 3% of the total of all operational expenses every fiscal year. As operational expenses increase, this reserve will grow accordingly. At the end of each fiscal year, if the emergency reserves were not used, the funds are carried into the next year's operational funds.

GENERAL FUND BUDGETING HIGHLIGHTS

The District's procedures in establishing the budgetary data reflected in the financial statements are summarized in *Note 1(E)* of the financial statements. Budgets are adopted on a basis consistent with generally accepted accounting principles for governmental entities. The District uses a line-item based budget. The budgeting systems are designed to control line-item expenditures, but provide flexibility for overall budgetary management. The Board of Directors and management strive to budget appropriate amounts for each individual line-item in order to provide services in the most economical manner.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had no Capital Assets.

General Obligation Debt

The District's long-term debt consists of the capital obligation to BVMD No. 1 and the Series 2003 General Obligation Bonds payable. Additional information can be found in *Note 4* of the financial statements. The outstanding obligation as of December 31, 2007 is \$2,060,000.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended December 31, 2007

CURRENT ISSUES, ECONOMIC CONDITION AND OUTLOOK

As presently planned, the development of Buckhorn Valley will proceed in several phases, each of which will require the extension of public services and facilities. The multiple district structure will assure that the construction and operation of each phase of public facilities will be primarily administered by a single Board of Directors consistent with a long-term construction and operations program. Use of the Service District as the entity responsible for construction of each phase of improvements and for management of operations will facilitate a well-planned financing effort through all phases of construction and will assist in assuring coordinated extension of services. The use of a consolidated service plan for the Districts will help assure proper coordination of the powers and authorities of the independent Districts and will help avoid confusion regarding the separate, but coordinated, purposes of the Districts. The multiple district structure will also help assure that facilities and services needed for future build-out of Buckhorn Valley will be provided when needed, and not sooner. This, in turn, allows the full costs of public improvements to be allocated over the full build-out of Buckhorn Valley and helps avoid disproportionate cost burdens being imposed on the early phases of development.

The District's primary activities budgeted for 2008 are 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 Series 2003 bonds.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our residents, customers, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional information, please contact the:

Buckhorn Valley Metropolitan District No. 2
c/o Robertson & Marchetti, P.C.
28 Second Street, Suite 213
Edwards, CO 81632
Tel: (970) 926-6060
Fax: (970) 926-6040

GOVERNMENT-WIDE FINANCIAL STATEMENTS

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET ASSETS
December 31, 2007

	Governmental Activities
<u>ASSETS:</u>	
Current:	
Cash and Cash Equivalents	\$ 120,348
Receivables:	
Cash with County Treasurer	1,183
Property Taxes	352,282
Total Current Assets	473,813
Non-current:	
Bond Issue Costs, Net of Amortization of \$26,890	86,051
Total Non-current Assets	86,051
TOTAL ASSETS	559,864
 <u>LIABILITIES:</u>	
Current:	
Due to BVMD No. 1	-
Deferred Property Taxes	352,282
Accrued Interest Payable	12,017
Non-current:	
Capital Obligation to BVMD No. 1	7,737,505
Service Obligation to BVMD No. 1	2,975,117
Long-term Bonds Payable	2,060,000
TOTAL LIABILITIES	13,136,921
 <u>NET ASSETS:</u>	
Restricted for:	
Emergencies	194
Unrestricted	(12,577,251)
TOTAL NET ASSETS	\$ (12,577,057)

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

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental
Activities

\$ (19,168)
(2,452,273)
(174,496)

(2,645,937)

176,256
67,853
15,179
36,516

295,804

(2,350,133)
(10,226,924)

\$ (12,577,057)

FUND FINANCIAL STATEMENTS

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 20,480	\$ 99,868	\$ 120,348
Receivables:			
Cash with County Treasurer	-	1,183	1,183
Property Taxes Receivable	-	352,282	352,282
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 20,480</u>	<u>\$ 453,333</u>	<u>\$ 473,813</u>
 <u>LIABILITIES AND FUND EQUITY:</u>			
Liabilities:			
Due to BVMD No. 1	\$ -	\$ -	\$ -
Deferred Property Taxes	-	352,282	352,282
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>352,282</u>	<u>352,282</u>
 Fund Equity:			
Reserved for Emergencies	194	-	194
Reserved for Debt Service	-	101,051	101,051
Unreserved	20,286	-	20,286
	<u> </u>	<u> </u>	<u> </u>
Total Fund Equity	<u>20,480</u>	<u>101,051</u>	<u>121,531</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 20,480</u>	<u>\$ 453,333</u>	<u>\$ 473,813</u>

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

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2007

TOTAL GOVERNMENTAL FUND BALANCES \$ 121,531

Amounts reported for governmental activities on the statement of net assets are different because of the following:

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

Bond Issue Costs	\$	112,941	
Less Accumulated Amortization		<u>(26,890)</u>	86,051

The District's long-term obligation in excess of deposits held by another District (BVMD No. 1) toward payment for installation and operation of infrastructure built on behalf of the District represent long-term liabilities and are not reported in the funds. (10,712,622)

Some liabilities are not due and payable in the current year; therefore, they are not reported in the governmental funds. This is the amount of accrued interest payable in the next fiscal year. (12,017)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. (2,060,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (12,577,057)

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

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended December 31, 2007

	General Fund	Debt Service Fund	Total Governmental Funds
<u>REVENUES:</u>			
Property Taxes	\$ -	\$ 244,109	\$ 244,109
Specific Ownership Taxes	-	15,179	15,179
Net Investment Income	9,521	26,995	36,516
Total Revenues	9,521	286,283	295,804
<u>EXPENDITURES:</u>			
General Government:			
Audit	4,758	-	4,758
Insurance	1,705	-	1,705
Treasurer's Fees	-	7,327	7,327
Intergovernmental:			
Capital Obligation to BMVD No. 1	-	323,500	323,500
Service Obligation to BVMD No. 1	-	67,853	67,853
Debt Service:			
Principal	-	440,000	440,000
Interest	-	175,000	175,000
Fees	-	2,062	2,062
Total Expenditures	6,463	1,015,742	1,022,205
Excess of Revenues Over (Under) Expenditures	3,058	(729,459)	(726,401)
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers In (Out)	-	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	3,058	(729,459)	(726,401)
FUND BALANCE--BEGINNING OF YEAR	17,422	830,510	847,932
FUND BALANCE--END OF YEAR	\$ 20,480	\$ 101,051	\$ 121,531

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

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Buckhorn Valley Metropolitan District No. 2, herein referred to as the District, conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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. Significant accounting policies of the District are described below.

A. Financial Reporting Entity

The Buckhorn Valley Metropolitan District No. 2 was established 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 is governed by an elected Board of Directors which is responsible for setting policy, appointing personnel and adopting an annual budget in accordance with state statutes.

The Governmental Accounting Standards Board (GASB) has specified the criteria to be used in defining a governmental entity for financial reporting purposes.

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations that are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the District's financial statements do not include any component units, nor do they exclude any potential component units requiring inclusion in the District's reporting entity, nor is the District a component unit of any other government. The District's financial statements include the accounts of all District operations.

B. Basis of Presentation

GOVERNMENT-WIDE STATEMENTS

The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government. The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Basis of Presentation-continued

GOVERNMENT-WIDE STATEMENTS - continued

In the statement of activities, direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the District's funds. During the fiscal year, the District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance by segregating transactions related to certain governmental functions or activities. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations based upon the purposes for which they are to be spent and by the means by which spending activities are controlled. The major governmental funds of the District are the General Fund and the Debt Service Fund. The fund focus is on current available resources and budget compliance.

Governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are included on their balance sheets. The reported fund balance (net current assets) is considered a measure of "available expendable resources."

C. Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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 at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, consist of property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Basis of Accounting - continued

FUND FINANCIAL STATEMENTS

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual-basis of accounting*. Under this method, revenues are recognized when measurable and available. The District considers all revenues available if they are collected within 60 days after year-end. The following material revenue sources are considered susceptible to accrual because they are both measurable and available to finance expenditures of the current period:

- Property Taxes
- Specific Ownership Taxes

Taxpayer-assessed local property and specific ownership taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt, which is recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities are reported as other financing sources.

D. Property Taxes Receivable and Deferred Revenue

Property taxes are levied on December 15, and attach as an enforceable lien on property on January 1st of the following year. 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 16th. Property taxes are levied and collected on behalf of the District by Pitkin County and are reported as revenue when received by the County Treasurer. Property taxes levied in the current year and payable in the following year are reported as a receivable at December 31. However, since the taxes are not available to pay current liabilities, the receivable is recorded as deferred revenue.

E. Budgets and Budgetary Accounting

The District uses the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to October 15, the District submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. A "Notice of Budget" is published when the budget is received.
2. Public hearings are held to obtain taxpayer comments.
3. Prior to December 15, the Board shall adopt, by resolution, the budget for the ensuing fiscal year and shall certify the tax levy to the Board of County Commissioners.
4. On or before December 31, the Board shall pass an annual appropriating resolution in which such sums of money shall be appropriated as the Board deems necessary to defray all expenses and liabilities of the District during the ensuing year.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

E. Budgets and Budgetary Accounting -- continued

5. The District's budgets are adopted on a basis consistent with generally accepted accounting principles for governmental entities. Annual appropriated budgets are adopted for all funds. The level of control at which expenditures exceed appropriations is at the fund level.
6. After adoption of the budget ordinance, the District may make by ordinance the following changes: a) supplemental appropriations to the extent of revenues in excess of the estimated budget; b) emergency appropriations; c) reduction of appropriations for which originally estimated revenues are insufficient.
7. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund. Budget amounts included in the financial statements are based on final legally amended budgets.
8. Budget appropriations lapse at the end of each year.

The District legally adopted annual budgets for all of the District's funds for 2007. No budget amendments were made during 2007.

F. Cash and Investments

The District's policy in determining which items are treated as cash equivalents include cash, demand deposits, treasury bills, and other short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last quoted market price. Cash deposits are reported at carrying amounts which reasonably estimate fair value. Additional cash disclosures are found in *Note 2* of the financial statements.

G. Interfund Receivables and Payables

To the extent that operating expenses of the District's general fund are paid by the debt service fund (or vice-verse) and/or transfers are made between the funds and these advances have not been repaid as of year-end, balances of interfund amounts receivable or payable are recorded.

H. Restricted Assets/Reservations of Fund Balance

Assets are reported as *restricted* when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. *Reservations* of fund balance arise from certain board designations of fund balance.

Emergencies - As discussed in *Note 10* of the financial statements, Colorado voters passed an amendment to the State Constitution. One of the provisions of this amendment requires local governments to establish an emergency reserve which is calculated at 3% of certain expenditures. These funds may only be expended in cases of emergencies as defined by the amendment, and are used to fund appropriations only after unrestricted resources are depleted.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -continued

I. Bond Issue Costs

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

J. Capital and Service Obligations to BVMD No. 1

The District is obligated under the District Facilities Construction and Service Agreement to reimburse BVMD No. 1 over time for the cost of infrastructure constructed by BVMD No. 1. Additionally, the District is obligated to reimburse BVMD No. 1 for certain operating costs. Cash payments made by the District to BVMD No. 1 and revenues earned by BVMD No. 1 from outside parties reduce the amount of these liabilities. These items represent the portion of the obligations that have not been paid by the District as of year-end.

K. Reconciliation of Government-wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund 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 “The District’s long-term obligation in excess of deposits held by another District (BVMD No. 1) toward payment for installation and operation of infrastructure built on behalf of the District represent long-term liabilities and are not reported in the funds.” The details of this \$10,712,622 difference are the District’s long-term capital and service obligations to BVMD No. 1 of \$7,737,505 and \$2,975,117, respectively.

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 service by BVMD No. 1 create a liability of the District. This liability is decreased by both cash payments made by the District and through revenues earned from other sources by BVMD No. 1.” The details of this \$2,060,920 difference are as follows:

Change in Capital Obligation	\$ 1,384,299
Change in Service Obligation	<u>676,621</u>
TOTAL	<u>\$ 2,060,920</u>

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -continued

J. Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

K. Encumbrances

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.

NOTE 2 - CASH AND INVESTMENTS

Deposits

In order to facilitate the recording of cash transactions and maximize interest earnings, the District has pooled cash deposits for all funds. The District maintains accountability for each fund's equity in pooled cash and investments. Interest earnings for combined funds are generally distributed based on monthly cash balances.

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. The eligible depository is required to pledge to the Colorado Division of Banking a pool of collateral having a market value that at all times exceeds 102 percent of uninsured aggregate public deposits. The eligible collateral is determined by the PDPA, which included obligations of the United States, the State of Colorado, Local Colorado governments, and obligations secured by first lien mortgages on real property located in the state. 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 State Regulatory Commission for banks and financial services is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. There is no custodial credit risk for public deposits collateralized under PDPA.

At December 31, 2007, the District's bank deposits were entirely insured or collateralized with securities held by the entity's agent in the District's name and had bank balances of \$120,348 which was fully covered by FDIC insurance.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 - CASH AND INVESTMENTS - continued

Investments

It is the policy of the District to invest public funds in a manner which will provide the highest investment return with the maximum security, meet daily cash flow demands, and conform to all federal, state and local statutes governing the investment of public funds. This policy applies to the investment of all financial assets of all funds of the District over which it exercises financial control.

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

- Obligations of the United States and certain U.S. governmental 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 funds
- Guaranteed Investment contracts
- Local government investment pools

Summary of Cash and Investments

Included in cash and cash equivalents are money market funds as follows:

	<u>Fair Value</u>
Bond Fund - Money Market	\$ 3,067
Checking - Money Market	117,281
Less Outstanding Items	-
Total Cash and Cash Equivalents	\$ 120,348

As a requirement of the 2003 Series General Obligation Bond Issue, the District was required to maintain a reserve fund which is to be used solely for the payment of principal of and interest on the bonds. The remaining required reserve was released pursuant to the Board Agreement on September 1, 2007.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 - CASH AND INVESTMENTS - continued

Risk Disclosures

Additional investment and deposit disclosures for credit risk, interest rate risk, and foreign currency risk, as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are included in the notes below.

To minimize custodial credit risk, or the risk that an insurer or other counterparty to an investment will not fulfill its obligations, state law limits investments to those where the issuer is rated in one of the three highest rating categories by one or more nationally recognized organizations that rate such issuers. The concentration of credit risk, or the risk of loss attributed to the magnitude of a government's investment in a single issuer, occurs when deposits are not diversified. The District's policy places no limit on the amount it may invest in any one issuer; however the District maintains general guidelines for investments to ensure proper diversification by security type and institution. All investments are issued or explicitly guaranteed by securities of the U.S. government, or insured by the Public Depository Protection Act, or are investments in mutual fund or external investment pools, and therefore are not subject to concentration of credit risk.

Interest rate risk is the extent to which changes in interest rates will adversely affect the fair value of an investment. The District maintains an investment policy that limits investment maturities as means of managing its exposure to fair value losses arising from increasing interest rates and to avoid undue concentration in any sector of the yield curve. Exceptions to this structure may be allowed where maturities can be structured to accommodate readily identifiable cash flows as approved by the Board. As of December 31, 2007, the District had no investments that were subject to interest rate risk as described above.

The District was not subject to foreign currency risk as of December 31, 2007.

NOTE 3 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The District has a number of financial instruments, including cash and equivalents, receivables, and accounts payable, none of which are held for trading purposes. The District estimates that the fair values of its financial instruments at December 31, 2007 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 4 - LONG-TERM OBLIGATIONS

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% 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.

A summary of changes in Long-term Obligations follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Series 2003 GO Bonds	\$ 2,500,000	\$ -	\$ 440,000	\$ 2,060,000	\$ -

The annual debt service requirements to maturity for the General Obligation Bonds are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 144,200	\$ 144,200
2009	-	144,200	144,200
2010	-	144,200	144,200
2011	-	144,200	144,200
2012	5,000	144,200	149,200
2013-2017	260,000	690,550	950,550
2018-2022	455,000	570,850	1,025,850
2023	1,340,000	93,800	1,433,800
	<u>\$ 2,060,000</u>	<u>\$2,076,200</u>	<u>\$ 4,136,200</u>

NOTE 5 - CONTINGENCIES

During the normal course of business, the District incurs claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives feel none of these claims or assertions are significant enough that they would materially affect the fairness of the presentation of the financial statements at December 31, 2007.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 6 **RISK MANAGEMENT**

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). 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. The Pool provides coverage for property claims up to the values declared and liability coverage for claims up to \$1,000,000. 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. During the year ended December 31, 2007, the pool made no distributions to the District.

NOTE 7 - **RELATED PARTY TRANSACTIONS**

All members of the District's Board of Directors have a direct financial interest in Roark Partners, LLLP (the "Developer"), one of which is the general partner of the Developer and four of the five Directors are employees of the Developer.

NOTE 9 - **DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT**

The District Facilities Construction and Service Agreement generally provides that Buckhorn Valley Metropolitan District No. 2 (the "Financing District") will pay to Buckhorn Valley Metropolitan District No. 1 (the "Service 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 thereunder is a general obligation debt of the Financing District subject to certain limitations, and as such the question of whether the Financing 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 District electorate.

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

In return for the payment of the monies required to be paid under the Agreement, the Service District agrees to: 1) acquire, construct and equip the Facilities; 2) thereafter provide for their operation and maintenance; and 3) utilize 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.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 9 - DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT - continued

As set forth in the Agreement, though the total obligation of the Financing District represented by the Agreement will be treated for financial disclosure purposes as a \$45,590,000 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 Financing 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 Financing 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 within the boundaries of the Financing 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 Financing 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 Financing 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 Financing District against the assessed value of the taxable property lying within its boundaries, as such boundaries may from time to time be enlarged.

To the extent that in any year the Financing 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 Service District may supplement the revenues from the Financing District through the imposition of fees against the properties and inhabitants of the Financing District for the services that the Service District provides.

The Agreement may be terminated by either District upon one year's notice, provided that the Financing 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 Service District in full. The Service District may terminate the Agreement only if, in the context of the termination, the Service District either: 1) transfers to the Financing 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 Service 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 Financing District; or 3) in the event the Service 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, 2007 the Financing District remitted to the Service District \$361,500 for capital expenses incurred by the Service District in the construction of Facilities and \$67,853 for reduction of service cost reimbursement from the Financing District.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 10 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

TABOR Amendment – Revenue and Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations, which 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.

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.

On May 2, 2000 the District's voters approved an increase in debt up to \$45,590,000 and a related increase in taxes up to \$53,796,200, 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, including but not limited to streets, roads, sidewalks, bridges, traffic controls, water supply and distribution system, sewage collection system, storm drainage system, park and recreation facilities, open space, television relay and translation system improvements, and mosquito control. In addition, the District's voters approved taxes to be increased \$500,000 annually, or by such lesser amount as may be necessary to pay for the District's operations, maintenance and other expenses. 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 of TABOR, and without limited in any year the amount of other revenues that may be collected and spent by the District.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of spending (excluding bonded debt service). The required reserve at December 31, 2007 is approximately \$194.

The initial base for local government spending and revenue limits is December 31, 2000 fiscal year spending. Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

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.

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 11 - SUBSEQUENT EVENTS

Subsequent to year-end, the District resolved to issue "Subordinate General Obligation Limited Tax Bonds, Series 2008" (the "Subordinate Bonds") in the aggregate principal amount of \$8,500,000 for the purpose of defraying the cost of all or a portion of improvements in the District service area. Such debt was authorized, but previously unissued, by the electors of the District on May 2, 2000, November 7, 2000 and November, 2006. After issuance of the Subordinate Bonds, the District has \$34,590,000 authorized but unissued debt. The issue will be used to reduce the Capital and Service Obligations due to Buckhorn Valley Metropolitan District No. 1. The bonds are to be payable on a subordinate basis to the District's General Obligation Limited Tax Bonds, Series 2003, and any other obligations which will be paid on a prior basis to the Subordinate Bonds, and are payable on a subordinate basis to the District's Service Obligation Mill Levy under the service agreement from (i) amounts payable to the District as a result of its imposition of any ad valorem taxes pursuant to the Capital Levy and (ii) any other legally available amounts designated by the District (collectively the "Subordinate Pledged Revenues").

REQUIRED SUPPLEMENTAL INFORMATION

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND

Fiscal Year Ended December 31, 2007

	GENERAL FUND		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Net Investment Income	\$ 2,000	\$ 9,521	\$ 7,521
Total Revenues	2,000	9,521	7,521
EXPENDITURES:			
General Government:			
Audit Fees	5,000	4,758	242
Elections and Notices	250	-	250
Insurance	1,700	1,705	(5)
Office Supplies and Overhead	1,500	-	1,500
Contingency	2,000	-	2,000
Total General Government	10,450	6,463	3,987
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,450)	3,058	11,508
OTHER FINANCING SOURCES (USES):			
Transfers In from Debt Service Fund	7,323	-	(7,323)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(1,127)	3,058	4,185
Fund Balance – Beginning of Year	10,992	17,422	6,430
Fund Balance – End of Year	\$ 9,865	\$ 20,480	\$ 10,615

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

OTHER SUPPLEMENTAL INFORMATION

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
Fiscal Year Ended December 31, 2007

	DEBT SERVICE FUND		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Property Taxes	\$ 244,109	\$ 244,109	\$ -
Specific Ownership Taxes	14,647	15,179	532
Net Investment Income	17,496	26,995	9,499
Total Revenues	276,252	286,283	10,031
EXPENDITURES:			
General Government:			
Treasurer Fees	7,324	7,327	(3)
Intergovernmental:			
Capital Obligation to BVMD No. 1	787,000	323,500	463,500
Service Obligation to BVMD No. 1	67,853	67,853	-
Debt Service:			
Principal	-	440,000	(440,000)
Interest	175,000	175,000	-
Fees	500	2,062	(1,562)
Total Capital Outlay	1,037,677	1,015,742	21,935
Excess (Deficiency) of Revenues Over (Under) Expenditures	(761,425)	(729,459)	31,966
OTHER FINANCING SOURCES (USES):			
Transfers (Out) to General Fund	(7,323)	-	7,323
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(768,748)	(729,459)	39,289
FUND BALANCE – BEGINNING OF YEAR	826,821	830,510	3,689
FUND BALANCE – END OF YEAR	\$ 58,073	\$ 101,051	\$ 42,978

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

BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION, MILL LEVY,
AND PROPERTY TAXES COLLECTED
December 31, 2007

Year Ended December 31,	Prior Year Assessed Valuation For Current Year Property Tax Levy	Mills Levied	Total Property Tax		Percent Collected to Levied
			Levied	Collected	
2003	\$ 1,195,860	40.000	\$ 47,834	\$ 47,834	100.00%
2004	2,448,580	43.000	105,289	105,970	100.65%
2005	2,564,470	43.000	110,272	110,257	99.99%
2006	3,220,310	43.000	138,473	138,434	99.97%
2007	5,685,710	42.934	244,110	244,109	100.00%
Estimated for:					
2008	\$ 8,170,190	43.118	352,282		

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.