

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2009

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

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**CERTIFIED PUBLIC ACCOUNTANTS**

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

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, 2009, 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, 2009 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 as listed in the table of contents 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 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.

July 12, 2010

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Fiscal Year Ended December 31, 2009

**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 "Taxing 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 "Operating 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, 2009 are as follows:

- In total, the District's *overall* net assets decreased by an additional \$1,260,736 or 9.6%, from the previous fiscal year, primarily due to increases in the District's Capital and Service Obligations to Buckhorn Valley Metropolitan District No. 1 that were in excess of repayments made from current year property tax transfers.
- General Revenues of \$527,103 accounted for 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 \$1,787,839 in expenses, of which \$827,173 was related to the District's Facilities Construction and Service Agreement with Buckhorn Valley Metropolitan District No. 1 and \$932,265 was for interest and other fiscal charges. The remaining amount of \$28,401 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, 2009

**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, 2009

**THE DISTRICT AS A WHOLE**

The District is the "Taxing 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:

	Governmental Activities		
	2009	2008	Increase(Decrease)
<u>ASSETS:</u>			
Current and Other Assets	\$ 1,158,443	\$ 627,385	\$ 531,058
Non-current Assets	97,551	103,705	(6,154)
Total Assets	1,255,994	731,090	524,904
<u>LIABILITIES:</u>			
Current Liabilities	1,703,767	683,966	1,019,801
Non-current Liabilities	13,926,875	13,161,036	765,839
Total Liabilities	15,630,642	13,845,002	1,785,640
<u>NET ASSETS:</u>			
Restricted	212	206	6
Unrestricted	(14,374,860)	(13,114,118)	(1,260,742)
Total Net Assets	\$ (14,374,648)	\$ (13,113,912)	\$ (1,260,736)

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 and service obligations along with the District's long-term obligation for bonds issued in 2003 and 2008. BVMD No. 2 anticipates issuing additional 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 an additional \$1,260,736. This resulted primarily from increases in the District's Capital and Service Obligations to BVMD No. 1 and unpaid accrued interest on the Series 2008 Subordinate Limited Tax General Obligation Bonds. Current assets and current liabilities include increases in deferred property taxes which are based on the assessed valuation of properties within the District's boundaries.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Fiscal Year Ended December 31, 2009

**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 2009:

	<u>Governmental Activities</u>		
	<u>2009</u>	<u>2008</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	510,977	369,366	141,611
Interest & Investment Earnings	<u>16,126</u>	<u>2,849</u>	<u>13,277</u>
Total Revenues	<u>527,103</u>	<u>372,215</u>	<u>154,888</u>
<u>EXPENSES:</u>			
General Government	28,401	23,071	5,330
Intergovernmental Agreement	827,173	570,265	256,908
Interest and Other Fiscal Charges	<u>932,265</u>	<u>315,734</u>	<u>616,531</u>
Total Expenses	<u>1,787,839</u>	<u>909,070</u>	<u>878,769</u>
Increase (Decrease) in Net Assets	<u>\$ (1,260,736)</u>	<u>\$ (536,855)</u>	<u>\$ (723,881)</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.

General government expenses increased with additional treasurer's fees on property tax collections. Current year intergovernmental expenses were for capital contributions of \$403,746 and service contributions of \$423,427 pursuant to the intergovernmental agreement with BVMD No. 1. Interest expense increased with unpaid but accrued interest payable on the Series 2008 bond issue.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Fiscal Year Ended December 31, 2009

**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 investment income and inter-fund transfers, as needed. The General Fund ending fund balance decreased from \$19,058 to \$12,892 during the fiscal year. This represents the excess of current period expenditures (financial uses) over current period revenues (financial sources). The ending fund balance of \$12,892 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 \$107,749 to \$106,808 during the fiscal year. This represents the excess of current period expenditures (financial uses) over current period revenues (financial sources). The ending fund balance of \$106,808 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 11* 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. Current year budgeted transfers from the Debt Service Fund were not made. It is not anticipated that current year budget variances will have a significant impact on future services or liquidity.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of 2009, the District had no Capital Assets.

***Long-term Obligations***

The District's long-term debt consists of the capital and service obligation to BVMD No. 1, the Series 2003 General Obligation Bonds payable, and the Series 2008 Subordinate General Obligation Limited Tax Bonds payable. Additional information can be found in *Note 4* of the financial statements. The District's total outstanding obligations of \$13,926,875 as of December 31, 2009 includes the Service Obligation of \$625,588 and Capital Obligation of \$2,741,287 due to Buckhorn Valley Metropolitan District No. 1, and \$10,560,000 of general obligation debt.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
For the Fiscal Year Ended December 31, 2009

**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 Operating 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 2010 are the continued payment to BVMD No. 1 and the collection of property taxes to pay debt service. In 2010 the District is issuing Bonds which will be used to partially refund the 2008 bonds and provide funding for additional infrastructure.

**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, 2009

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Current:	
Cash and Cash Equivalents	\$ 118,174
Receivables:	
Cash with County Treasurer	1,359
Property Taxes	1,038,743
Prepaid Expenses	<u>167</u>
Total Current Assets	<u>1,158,443</u>
Non-current:	
Bond Issue Costs, Net of Accumulated Amortization of \$38,681	<u>97,551</u>
Total Non-current Assets	<u>97,551</u>
 TOTAL ASSETS	 <u>1,255,994</u>
 <u>LIABILITIES:</u>	
Current:	
Deferred Property Taxes	1,038,743
Accrued Interest Payable	665,024
Non-current:	
Service Obligation to BVMD No. 1	625,588
Capital Obligation to BVMD No. 1	2,741,287
Long-term Bonds Payable	<u>10,560,000</u>
TOTAL LIABILITIES	<u>15,630,642</u>
 <u>NET ASSETS:</u>	
Restricted for:	
Emergencies	212
Unrestricted	<u>(14,374,860)</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (14,374,648)</u>

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

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended December 31, 2009

		PROGRAM REVENUES		
	EXPENSES	Charges For Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 28,401	\$ -	\$ -	\$ -
Intergovernmental Agreement	827,173	-	-	-
Interest & Other Fiscal Charges	932,265	-	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 1,787,839</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

GENERAL REVENUES:

Property Taxes, Levied for Debt Service Purposes  
Property Taxes Levied for Contractual Obligations  
Specific Ownership Taxes  
Interest and Investment Earnings

Total General Revenues

Change in Net Assets

NET ASSETS – BEGINNING OF YEAR

NET ASSETS – END OF YEAR

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

NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

Governmental  
Activities

\$ (28,401)  
(827,173)  
(932,265)  
  
(1,787,839)

429,318  
61,331  
20,328  
16,126  
  
527,103  
  
(1,260,736)  
  
(13,113,912)  
  
\$ (14,374,648)

## FUND FINANCIAL STATEMENTS

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2009

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 12,725	\$ 105,449	\$ 118,174
Receivables:			
Cash with County Treasurer	-	1,359	1,359
Property Taxes Receivable	115,414	923,329	1,038,743
Prepaid Expenses	<u>167</u>	<u>-</u>	<u>167</u>
 TOTAL ASSETS	 <u>\$ 128,306</u>	 <u>\$ 1,030,137</u>	 <u>\$ 1,158,443</u>
 <u>LIABILITIES AND FUND EQUITY:</u>			
Liabilities:			
Deferred Property Taxes	<u>\$ 115,414</u>	<u>\$ 923,329</u>	<u>\$ 1,038,743</u>
 Total Liabilities	 <u>115,414</u>	 <u>923,329</u>	 <u>1,038,743</u>
Fund Equity:			
Fund Balance			
Non-spendable	167	-	167
Restricted for Emergencies	212	-	212
Restricted for Debt Service	-	106,808	106,808
Unassigned	<u>12,513</u>	<u>-</u>	<u>12,513</u>
 Total Fund Equity	 <u>12,892</u>	 <u>106,808</u>	 <u>119,700</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 128,306</u>	 <u>\$ 1,030,137</u>	 <u>\$ 1,158,443</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, 2009

TOTAL GOVERNMENTAL FUND BALANCES \$ 119,700

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	\$	136,232	
Less Accumulated Amortization		<u>(38,681)</u>	97,551

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. (3,366,875)

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. (665,024)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. (10,560,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (14,374,648)

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, 2009

	General Fund	Debt Service Fund	Total Governmental Funds
<u>REVENUES:</u>			
Property Taxes	\$ -	\$ 490,649	\$ 490,649
Specific Ownership Taxes	-	20,328	20,328
Net Investment Income	900	15,226	16,126
Total Revenues	900	526,203	527,103
<u>EXPENDITURES:</u>			
General Government:			
Audit	5,308	-	5,308
Insurance	1,648	-	1,648
Office Expense	110	-	110
Treasurer's Fees	-	15,181	15,181
Intergovernmental:			
Capital Obligation to BMVD No. 1	-	-	-
Service Obligation to BVMD No. 1	-	61,334	61,334
Debt Service:			
Principal	-	-	-
Interest	-	450,479	450,479
Fees	-	150	150
Total Expenditures	7,066	527,144	534,210
Excess of Revenues Over (Under) Expenditures	(6,166)	(941)	(7,107)
FUND BALANCE—BEGINNING OF YEAR	19,058	107,749	126,807
FUND BALANCE—END OF YEAR	\$ 12,892	\$ 106,808	\$ 119,700

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



## BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2

### NOTES TO FINANCIAL STATEMENTS

December 31, 2009

#### *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, 2009

*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, 2009

*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 1<sup>st</sup> of the following year. They may be paid in either one installment (no later than April 30<sup>th</sup>) or two equal installments (not later than February 28<sup>th</sup> and June 15<sup>th</sup>) 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 16<sup>th</sup>. Property taxes are levied and collected on behalf of the District by Eagle 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 after 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, 2009

*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 2009.

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 Net Assets/ Fund Balances

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. *Assignments* of fund balance arise from certain board designations of fund balance.

*Emergencies* – As discussed in *Note 11* 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, 2009

*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 \$3,366,875 difference are the District’s long-term service and capital obligations to BVMD No. 1 of \$625,588 and \$2,741,287 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 \$765,839 difference are as follows:

Change in Service Obligation	\$ 362,093
Change in Capital Obligation	<u>403,746</u>
TOTAL	<u>\$ 765,839</u>

L. 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.

## BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2

### NOTES TO FINANCIAL STATEMENTS

December 31, 2009

#### 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. Interest earnings 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, 2009, 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 \$134,235 which were fully covered by FDIC insurance.

##### 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, including securities issued by FNMA (federal national mortgage association), GNMA (governmental national mortgage association), FHLMC (federal home loan mortgage corporation), the federal farm credit bank, the federal land bank, the export-import bank, the Tennessee valley authority, and certain international agency securities, including the World Bank.
- General obligation and revenue bonds of U.S. local government entities, the District of Columbia, and territorial possessions of the U.S. rated in the highest two rating categories by two or more nationally recognized rating agencies.
- Bankers' acceptances of certain banks
- Certain securities lending agreements
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed Investment contracts
- Local government investment pools
- The investing local government's own securities including certificates of participation and lease obligations.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

*NOTE 2 - CASH AND INVESTMENTS - continued*

Summary of Cash and Investments

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

	<u>Fair Value</u>
Checking/Money Market	\$ 134,235
Less Outstanding Items	<u>(16,061)</u>
Total Cash and Cash Equivalents	<u>\$ 118,174</u>

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, 2009, 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, 2009.

*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, 2009 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, 2009

*NOTE 4 - GENERAL OBLIGATION BONDS*

A summary of changes in Long-term General Obligation Bonds follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Series 2003					
G.O. Lim. Tax Bonds	\$ 2,060,000	\$ -	\$ -	\$ 2,060,000	\$ -
Series 2008 Subordinate					
G.O. Lim. Tax Bonds	8,500,000	-	-	8,500,000	-
Totals	<u>\$ 10,560,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,560,000</u>	<u>\$ -</u>

Limited Tax General Obligation Bonds, Series 2003

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 partially reimburse Buckhorn Valley Metro District No. 1 for costs related to the construction of infrastructure within the District. The principal on the bonds is payable on December 1 and matures in various increments from 2020 through 2023. The Bonds were subject to mandatory redemption to the extent of monies still held by the trustee September 1, 2007 and \$440,000 was repaid in 2007 as required by the bond documents. Bonds maturing on and after December 1, 2013 are subject to optional redemption at the District's option 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 the assessment ratio. The annual debt service requirements to maturity for the Series 2003 Limited Tax General Obligation Bonds are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ 144,200	\$ 144,200
2011	-	144,200	144,200
2012	-	144,200	144,200
2013	-	144,200	144,200
2014	-	144,200	144,200
2015-2019	-	721,000	721,000
2020-2023	<u>2,060,000</u>	<u>540,400</u>	<u>2,600,400</u>
	<u>\$ 2,060,000</u>	<u>\$ 1,982,400</u>	<u>\$ 4,042,400</u>

Subordinate Limited Tax General Obligation Bonds, Series 2008

The District issued \$8,500,000 of subordinate general obligation bonds dated February 13, 2008, with simple interest of 6% payable annually on December 15 until the principal amount and interest due thereon is paid at maturity or upon prior redemption, to partially reimburse Buckhorn Valley Metro District No. 1 for costs related to the construction of infrastructure within the District. The Series 2008 bonds, together with interest thereon shall be payable solely from and to the extent of the Subordinate Pledged Revenue. The Bonds shall constitute an irrevocable lien upon the Subordinate Pledged Revenue, *subordinate* to the lien of any Senior Bonds. The Subordinate Pledged Revenue means (a) all Ad Valorem Revenues payable to the District and (b) any other legally available amounts. To the extent pledged revenues are insufficient to make the interest payments due, such shortfall will continue to accrue to future years. As of December 31, 2009 the balance of accrued but unpaid interest on the Series 2008 bonds is \$653,007. As amounts are payable from Subordinate Pledged Revenue, there is no annual debt service schedule for the Series 2008 Subordinate Limited Tax General Obligation Bonds.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2009

*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, 2009.

*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, 2009, the pool made no distributions to the District.

*NOTE 7 - RELATED PARTY TRANSACTIONS*

Buckhorn Valley Development, LLC, conducts all of the District's ordinary operational and business affairs under a Management Services Agreement with the District. Buckhorn Valley Development, LLC, owns approximately 160+ acres within Buckhorn Valley Metropolitan District No. 2 and all property within Buckhorn Valley Metropolitan District No. 1. During 2009, members of the District's Board of Directors had the following relationships with the District and/or Buckhorn Valley Development, LLC.

Board President, Samantha Gale – Salaried employee of Buckhorn Valley Development, LLC, and has a contract for purchase of property within the Districts.

Board Secretary/Treasurer, Gayl Hill – Husband is a member of Buckhorn Valley Development, LLC.

Board Member, Stephan Kelley – Has an option to purchase certain real property within the boundaries of the Districts; sole proprietor of Kelley Mountain Development, LLC, which contracts with Buckhorn Valley Development, LLC, for engineering services to the Districts.

Former Board President, John Hill – Member of Buckhorn Valley Development, LLC, with a financial interest in matters pertaining to the Districts in excess of \$100,000.

Former Board Member, Jeffrey Brode – Member of Buckhorn Valley Development, LLC, with a financial interest in matters pertaining to the Districts in excess of \$100,000.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

*NOTE 8 - DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT*

The First Amended and Restated District Facilities Construction and Service Agreement dated March 3, 2003, 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 required thereunder 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 held on May 2, 2000 and was approved by the District 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. 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) 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.

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 \$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 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 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 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 that the Operating District provides.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

*NOTE 8 - DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT - continued*

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. 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, 2009 the Taxing District remitted to the Operating District \$0 for capital expenses incurred by the Operating District in the construction of Facilities and \$61,334 for reduction of service cost reimbursement from the Taxing District.

*NOTE 9 - ADVANCE AND REIMBURSEMENT AND FACILITIES ACQUISITION AGREEMENT*

The Advance and Reimbursement and Facilities Acquisition Agreement entered into between Buckhorn Valley Metropolitan District No. 1 and Buckhorn Valley Metropolitan District No. 2 (the "Districts"), and Buckhorn Valley Development, LLC (the "Developer"), generally provides that the advance of funds by the Developer for the organization of the Districts, maintenance and operation costs shall be reimbursed together with an interest rate of 8% per annum on such sums advanced. In addition, the advance of funds by the Developer for capital construction of certain public improvements and facilities shall be reimbursed, upon certification and approval by the Districts, from the issuance of Bonds, whereas the Districts are authorized to issue public debt instruments, including general obligation bonds, which the Districts may issue for the purpose of satisfying its obligations to construct or acquire the public infrastructure necessary for the development of the Districts. In the event the Bonds do not issue, the proceeds from such Bonds are not sufficient to repay the advances, or additional advances are made thereunder, the Districts shall make payment for the actual capital construction costs from funds available within any fiscal year and not otherwise required for operations, capital improvements and debt service costs and expenses of the Districts. This reimbursement obligation is and shall be subordinate to any bonded indebtedness of the Districts now in existence or hereafter created, and shall be subject to the limitations of the Districts' Service Plan. The payment of obligations under the agreement are subject to annual appropriation by the Board of Directors of the Districts in their sole discretion, and the terms and conditions of the agreement shall not be construed as a multiple-fiscal year direct or indirect District debt or other financial obligation within the meaning of Article X, Section 20 of the Colorado Constitution.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2009

*NOTE 10 - MANAGEMENT SERVICES AGREEMENT*

A Management Services Agreement was entered into between Buckhorn Valley Metropolitan District No. 1 and Buckhorn Valley Metropolitan District No. 2 (the "Districts"), and Buckhorn Valley Development, LLC (the "Manager"), dated January 13, 2009, and subsequently amended June 16, 2009. The Agreement generally provides that the Manager shall conduct all of the Districts' ordinary operational and business affairs, shall provide general supervision and project administration for all projects, facilities and contracts, and provide property management services. District No. 1 shall direct the Manager in the provision of the Management Services under the agreement, and the Manager shall obtain approval from District No. 1 prior to providing any Management Services that vary from the Management Services set forth in the agreement, whereas District No. 1 is responsible for the management of the affairs of both District No. 1 and District No. 2 pursuant to the Master IGA between the Districts. The Manager shall be paid under the Management Services Fee Schedule which may be adjusted upon amendment to the agreement. The Agreement was amended June 16, 2009, effective retroactively to January 14, 2009, establishing a base management fee of \$10,320 per month, with an hourly fee schedule for additional services.

*NOTE 11 - 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, 2009 is approximately \$212.

**BUCKHORN VALLEY METROPOLITAN DISTRICT NO. 2**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

*NOTE 11 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued*

TABOR Amendment – Revenue and Spending Limitation Amendment - continued

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.

*NOTE 12 - SUBSEQUENT EVENTS*

On May 20, 2010, the District issued General Obligation Limited Tax Refunding and Improvement Bonds Series 2010 for the purposes of (a) paying or reimbursing a portion of the costs of acquiring, constructing, relocating and installing certain public improvements and facilities; (b) refunding a portion of the District's outstanding Subordinate General Obligation Limited Tax Bonds Series 2008 and refunding the Original Developer Note of District No. 1; (c) funding the 2010 reserve fund; and (d) paying the costs of issuance of the Bonds and refunding the Refunded Bonds.

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, 2009

	GENERAL FUND		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES:</u>			
Net Investment Income	\$ 488	\$ 900	\$ 412
Total Revenues	488	900	412
<u>EXPENDITURES:</u>			
General Government:			
Audit Fees	5,150	5,308	(158)
Insurance	2,000	1,648	352
Office Expense	-	110	(110)
Contingency	2,000	-	2,000
Total General Government	9,150	7,066	2,084
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,662)	(6,166)	2,496
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers (to) from Debt Service Fund	9,000	-	(9,000)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	338	(6,166)	(6,504)
Fund Balance – Beginning of Year	19,504	19,058	(446)
Fund Balance – End of Year	\$ 19,842	\$ 12,892	\$ (6,950)

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, 2009

	DEBT SERVICE FUND		
	Original and Final Budget	Actual	Variance Final (Unfavorable)
<u>REVENUES:</u>			
Property taxes	\$ 500,578	\$ 490,649	\$ (9,929)
Specific Ownership Taxes	25,029	20,328	(4,701)
Net Investment Income	2,654	15,226	12,572
TOTAL REVENUES	528,261	526,203	(2,058)
<u>EXPENDITURES:</u>			
General Government:			
Treasurer Fees	15,017	15,181	(164)
Contingency	2,000	-	2,000
Intergovernmental:			
Capital Obligation to BVMD No. 1	-	-	-
Service Obligation to BVMD No. 1	62,572	61,334	1,238
Debt Service:			
Principal	-	-	-
Interest	438,006	450,479	(12,473)
Fees	2,100	150	1,950
TOTAL EXPENDITURES	519,695	527,144	(7,449)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	8,566	(941)	(9,507)
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfer (To) From General Fund	(9,000)	-	9,000
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(434)	(941)	(507)
FUND BALANCE – BEGINNING OF YEAR	106,175	107,749	1,574
FUND BALANCE – END OF YEAR	\$ 105,741	\$ 106,808	\$ 1,067

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, 2009

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%
2008	8,170,190	43.118	352,282	352,151	99.96%
2009	11,715,460	42.728	500,578	490,649	98.02%
Estimated for: 2010	\$ 18,864,630	55.063	\$ 1,038,743		

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.