



**ASPEN HIGHLANDS RESIDENTIAL
METROPOLITAN DISTRICT**

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

December 31, 2010

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

April 4, 2011

The Board of Directors
Aspen Highlands Residential Metropolitan District

We have audited the accompanying financial statements of the governmental activities and each major fund of Aspen Highlands Residential Metropolitan District as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Aspen Highlands Residential Metropolitan 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 Aspen Highlands Residential Metropolitan District, as of December 31, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Aspen Highlands Residential Metropolitan District basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chadwick, Steinkirchner, Davis & Co., P.C.

ASPEN HIGHLANDS RESIDENTIAL METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010

The Aspen Highlands Residential Metropolitan District (the "District") was approved by voters on November 10, 1998 and formally organized by judicial decree on November 23, 1998 for the purpose of providing certain public infrastructure and municipal services for the benefit of the residents and property owners within the District. The District is located within the corporate limits of the City of Aspen, Colorado, and serves an 83-acre commercial and residential community at the base of the Aspen Highlands ski area.

The Aspen Highlands Commercial Metropolitan District and the Aspen Highlands Residential Metropolitan District, by intergovernmental agreement, and for reasons of cost effectiveness, operate as a combined Metropolitan District with the Commercial District providing and coordinating all operations, maintenance, and administration for both Districts. The Residential District provides the primary funding for these services in the form of "intergovernmental service fees," pursuant to the Regional Facilities Construction Agreement.

As the managers of the Aspen Highlands Residential Metropolitan District, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended December 31, 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This *discussion and analysis* is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) Government-wide financial statements; 2) fund financial statements; and 3) notes to the financial 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 *supplementary information* that further explains and supports the information in the financial statements and enhances the reader's understanding of the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. Current-year to prior-year comparisons are presented below to help users evaluate the results of the District over the past two years.

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change as it occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 6 and 7 of this report.

**ASPEN HIGHLANDS RESIDENTIAL METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010**

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund that is reported as a governmental fund, which focuses on how money flows into and out of this fund and the balances left at year-end that are available for spending.

Governmental Fund financial statements are prepared on a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the District's general government operations and the basic services it provides.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found starting on page 13 of this report.

THE DISTRICT AS A WHOLE

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 fiscal year 2010 compared to 2009:

	<u>2010</u>	<u>2009</u>
<u>ASSETS:</u>		
Cash, investments, other assets	\$ 2,734,292	\$ 2,531,994
Total Assets	<u>2,734,292</u>	<u>2,531,994</u>
<u>LIABILITIES:</u>		
Current Liabilities	2,204,907	2,000,411
Long-Term Debt, Current	335,658	300,658
Long-Term Debt, Non-Current	<u>6,486,263</u>	<u>6,856,921</u>
Total Liabilities	<u>9,026,828</u>	<u>9,157,990</u>
<u>NET ASSETS:</u>		
Restricted for Emergencies	33,308	29,066
Restricted for Capital Projects	116,742	116,492
Unrestricted (Deficit)	<u>(6,442,586)</u>	<u>(6,771,554)</u>
Total Net Assets (Deficit)	<u>\$ (6,292,536)</u>	<u>\$ (6,625,996)</u>

Net Assets increased \$333,460 from 2009 to 2010, and this is due to an increase in total assets of \$202,298 (primarily due to an increase in cash and investments of \$199,259), along with a decrease in total liabilities of approximately \$131,162 (a reduction in long-term debt of \$335,658, offset by an increase in current liabilities of \$204,496). The balance in Cash, Investments and Other Assets is comprised of unrestricted cash, restricted thaw wire reserves, capital project reserves, and receivables.

ASPEN HIGHLANDS RESIDENTIAL METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010

The deficit balance in Total Net Assets does not mean that the District does not have resources available to pay its bills. Rather, it is the result of having *long-term* commitments (bonded indebtedness) that are greater than *currently* available resources, and State law prevents special Districts from levying or showing tax revenues for debt service in future years. Another way to look at this is that the District must disclose the entire outstanding long-term debt amount on the Liabilities side of the Statement of Net Assets, but is only permitted to show current-year resources on the Assets side of the Statement of Net Assets.

Statement of Activities

The Statement of Activities reflects general property taxes and service revenues and the cost of providing services to the District. The following summary reflects the overall change in net assets for the fiscal year 2010 compared to 2009:

	<u>2010</u>	<u>2009</u>
<u>REVENUES:</u>		
Property Taxes	\$ 1,760,076	\$ 1,595,464
Specific Ownership Taxes	46,676	51,288
Interest earnings	1,966	3,561
Total Revenues	<u>1,808,718</u>	<u>1,650,313</u>
<u>EXPENDITURES:</u>		
Treasurer's Fees	88,057	79,719
Intergovernmental service fees	1,012,000	1,006,099
Other fees	275	525
Interest Expense	361,097	379,292
Amortization Expense	13,829	13,829
Total Expenditures*	<u>1,475,258</u>	<u>1,479,464</u>
Change in Net Assets*	<u>\$ 333,460</u>	<u>\$ 170,849</u>

* Total Expenses do not include debt service principal payments. This amount is not shown on the Statement of Activities, above, per GASB (Governmental Accounting Standards Board) financial reporting principles. Instead, this amount is recorded in the Statement of Net Assets as a reduction of liabilities.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUND

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund

For 2010 revenues and expenditures in the Governmental Fund, see the table above and page 10 of this report. Revenues, consisting of property and specific ownership taxes and interest income, increased by \$158,405, or 9.6%, over 2009. Expenses, consisting of intergovernmental service fees paid to Aspen Highlands Commercial Metropolitan District, debt service interest payments, and other fiscal charges, decreased by \$4,206, or less than 1%, compared to 2009. This is primarily due to a decrease in the interest expense on long-term debt.

**ASPEN HIGHLANDS RESIDENTIAL METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010**

BUDGET VARIANCES

A summary of 2010 budget-to-actual revenues and expenditures for the general fund can be found on page 12 of this report. The District's actual revenues in the amount of \$1,808,718 came in under budget expectations of \$1,867,201 by \$58,483, or 3.2%. This is primarily due to 2009 and 2010 property tax abatements that affected 2010 District cash flows. Expenditures also came in under budget for 2010, by \$15,223, or less than 1%.

DEBT ADMINISTRATION

As of December 31, 2010, the District had \$6,821,921 in General Obligation Debt. The original bonds, in the amount of \$8,395,000, were issued in 2001 and the proceeds were transferred to the Commercial District. The Commercial District used the bond proceeds to reimburse the developer for the completion of infrastructure and facilities (the conveyances were completed in 2003). In May 2007, the District issued \$6,610,000 of General Obligation Refunding Bonds in order to level out the future annual debt service payments and keep them at or near \$700,000 per year. The refinancing is intended to avoid the original debt service payment spikes of \$1M and above that would have occurred in 2012 and subsequent years. Debt service interest payments are due semi-annually on June 1st and December 1st of each year, and principal is due on December 1st of each year. The final maturity date is December 1, 2023, an extension of five years over the original bonds. With the refinancing of the bonds, the District realized an economic gain (difference between the present values of the old and new debt service payments) of \$185,079. See page 19 of this report for more detailed information on the District's long-term debt.

REQUEST FOR INFORMATION

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 financial information, please contact the:

Aspen Highlands Residential Metropolitan District Manager
c/o Beach Resource Management, LLC
711 E. Valley Road, Suite 103
Basalt, CO 81621
Telephone: (970) 273-3100
Fax: (970) 273-3105

Aspen Highlands Residential Metropolitan District

STATEMENT OF NET ASSETS

December 31, 2010

	Governmental Activities
ASSETS	
Cash and investments	\$ 603,489
Restricted cash and investments	116,742
Receivables	
Due from county treasurer	4,118
Property taxes	1,831,315
Bond issue costs, net	178,628
Total Assets	\$ 2,734,292
 LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	\$ 350,000
Accrued interest payable	23,592
Deferred property taxes	1,831,315
Long-term liabilities	
Portion due and payable within one year	
Bonds payable	335,658
Portion due and payable after one year	
Bonds payable	6,486,263
Total Liabilities	9,026,828
 Net Assets	
Restricted for emergencies	33,308
Restricted for capital projects	116,742
Unrestricted	(6,442,586)
Total Net Assets	(6,292,536)
Total Liabilities and Net Assets	\$ 2,734,292

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2010

Function/Programs	Expenses	Program Revenues			Total Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 1,114,161	\$ -	\$ -	\$ -	\$ (1,114,161)
Interest on long-term debt	361,097	-	-	-	(361,097)
Total governmental activities	\$ 1,475,258	\$ -	\$ -	\$ -	(1,475,258)
General revenues:					
Property and specific ownership taxes					1,806,752
Interest earnings					1,966
Total general revenues					1,808,718
Change in net assets					333,460
Net assets - beginning					(6,625,996)
Net assets - ending					\$ (6,292,536)

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2010

	General	Total Governmental Funds
ASSETS		
Cash and investments	\$ 603,489	\$ 603,489
Restricted cash and investments	116,742	116,742
Receivables		
Due from county treasurer	4,118	4,118
Property taxes	1,831,315	1,831,315
	<u>2,555,664</u>	<u>2,555,664</u>
Total Assets	<u>\$ 2,555,664</u>	<u>\$ 2,555,664</u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 350,000	\$ 350,000
Deferred property taxes	1,831,315	1,831,315
Total Liabilities	<u>2,181,315</u>	<u>2,181,315</u>
Fund equity		
Reserved for emergencies	33,308	33,308
Reserved for capital projects	116,742	116,742
Unreserved	224,299	224,299
Total Fund Equity	<u>374,349</u>	<u>374,349</u>
	<u>\$ 2,555,664</u>	<u>\$ 2,555,664</u>
Total Liabilities and Fund Equity	<u>\$ 2,555,664</u>	<u>\$ 2,555,664</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

December 31, 2010

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

Total fund balance - governmental funds	\$ 374,349
Bond issue costs are not reported as assets in the funds, but are shown as an asset in the Statement of Net Assets and amortized over the life of the bonds.	178,628
Losses on refunding are reported as other financing items in governmental funds, but are recorded as a contra-account to bonds payable in the Statement of Net Assets and amortized over the life of the bonds.	173,079
Long-term liabilities such as bonds are not due and payable in the current period and, therefore, are not reported in the funds.	(6,995,000)
Accrued interest and fees are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(23,592)</u>
Net Assets of Governmental Activities	<u>\$ (6,292,536)</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended December 31, 2010

	General	Total Governmental Funds
Revenues		
Property taxes	\$ 1,853,820	\$ 1,853,820
Property tax abatements	(93,744)	(93,744)
Specific ownership taxes	46,676	46,676
Interest earnings	1,966	1,966
Total revenues	<u>1,808,718</u>	<u>1,808,718</u>
Expenditures		
Current		
General government	1,100,332	1,100,332
Debt service		
Principal	395,000	395,000
Interest	303,450	303,450
Total expenditures	<u>1,798,782</u>	<u>1,798,782</u>
	Excess of Revenues Over (Under) Expenditures	9,936
	9,936	9,936
Fund Balance - beginning	<u>364,413</u>	<u>364,413</u>
Fund Balance - ending	<u><u>\$ 374,349</u></u>	<u><u>\$ 374,349</u></u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2010

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

Net Change in Fund Balances - Governmental Funds	\$ 9,936
Governmental funds report the repayment of principal on long-term debt as expenditures. However, these repayments are not reported as expenses in the Statement of Activities, but rather as a reduction of debt in the Statement of Net Assets. This amount is the difference in the treatment of these repayments.	395,000
Governmental funds do not record the amount of interest on long-term debt that has accrued since the end of the year. However, these liabilities are reported in the Statement of Net Assets and the related expense is reported in the Statement of Activities. This is the amount by which accrued interest decreased over the prior year.	1,695
Governmental funds do not record the effect of losses on the defeasance of debt when first issued. However, this contra-liability is reported in the Statement of Net Assets and these amounts are deferred and amortized in the Statement of Activities. This is the amount of current year amortization.	(59,342)
Governmental funds report bond issuance costs as expenditures. However, in the Statement of Activities the cost of obtaining debt is allocated over the life of the related bonds and reported as amortization expense. This is the amount of current year amortization.	<u>(13,829)</u>
Change in Net Assets of Governmental Activities	<u>\$ 333,460</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL FUND

Year ended December 31, 2010

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 1,814,830	\$ 1,853,820	\$ 38,990
Property tax abatements	-	(93,744)	(93,744)
Specific ownership taxes	45,371	46,676	1,305
Interest earnings	7,000	1,966	(5,034)
Total revenues	<u>1,867,201</u>	<u>1,808,718</u>	<u>(58,483)</u>
Expenditures			
Treasurer's fees	90,741	88,057	2,684
Intergovernmental service fees	994,480	1,012,000	(17,520)
Other fees	500	275	225
Interest expense	303,450	303,450	-
Debt service principal	395,000	395,000	-
Contingency	29,834	-	29,834
Total expenditures	<u>1,814,005</u>	<u>1,798,782</u>	<u>15,223</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 53,196</u>	<u>\$ 9,936</u>	<u>\$ (43,260)</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Aspen Highlands Residential Metropolitan District (the District) was approved by voters on November 10, 1998 and formally organized by judicial decree on November 23, 1998, pursuant to provisions set forth in the Colorado Special District Act. The governing body of the District consists of a five member Board of Directors, which is elected by the registered voters within the District. The purpose of the District is to provide sanitation, street, park and recreation, transportation facilities, programs and services for the Aspen Highlands Village community.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

The District has no employees and all operations and administrative functions are contracted.

2. Reporting Entity

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 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 which 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 above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

3. Government-wide and Fund Financial Statements

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

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-wide Financial Statements

In the government-wide Statement of Net Assets, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported as restricted for emergencies and capital projects and unrestricted.

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

Fund Financial Statements

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

The fund focus is on current available resources and budget compliance.

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District currently has one General Fund, which is a governmental fund.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The District reports the following major governmental fund:

General Fund – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989, are not applied.

5. Measurement Focus and Basis of Accounting

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

Long-Term Economic Focus and Accrual Basis

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

Current Financial Focus and Modified Accrual Basis

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

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Inter-Governmental Service Fees

Quasi-external transactions are accounted for as revenues, expenditures or expenses. In 1999, the District entered into an agreement with the Aspen Highlands Commercial Metropolitan District (the Commercial District) adopting a policy whereby the Commercial District pays for all operational expenses associated with both Districts and charges the District a service fee for administering the operations for the District. The service fee is an expenditure of the District and a revenue for the Commercial District.

To the extent that service fees between the Commercial District and the District had not been paid or received as of year-end, balances of intergovernmental amounts receivable or payable are recorded.

The following are the intergovernmental balances at December 31, 2010:

	<u>Due To</u>	<u>Due From</u>
Commercial District	\$ 350,000	\$ –
Residential District	–	350,000

8. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

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

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

- (1) For the 2010 budget year, prior to August 23, 2009 the County Assessor sent the District the assessed valuation of all taxable property within the District’s boundaries.
- (2) On or before October 15, 2009 the District’s accountant submitted to the District’s Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District’s operating requirements.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- (3) The Board held a public hearing on the proposed budget and capital program no later than 45 days prior to the close of the fiscal year.
- (4) For the 2010 budget, prior to December 15, 2009 the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2010 budget, the final budget and appropriating resolution was adopted prior to December 31, 2009.
- (6) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

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

9. Property Taxes

Property taxes for 2010 collectible in 2011 were certified by the Pitkin County Commissioners before December 31, 2010. Property taxes attached as an enforceable lien on January 1, 2011 and are due in total April 30, 2011 or in equal installments February 28, 2011 and June 15, 2011, at the option of the taxpayer. Property taxes for 2010, collectible in 2011, are shown as property taxes receivable and deferred revenue on the statement of net assets in the amount of the assessed taxes. The County Treasurer remits taxes collected monthly to the District.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE B – CASH AND INVESTMENTS

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all of the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. As of December 31, 2010, the District had cash deposits of \$21,689, of which 100% was covered by federal depository insurance.

Investments

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

The District had invested \$698,542 in the Colorado Local Government Liquid Asset Trust, (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure.

NOTE C – LONG-TERM DEBT

General Obligation Bonds

The District issued \$8,395,000 of General Obligation Bonds, Series 2001. The bonds were issued on April 15, 2001, with interest due semiannually on June 1 and December 1 of each year, commencing December 1, 2001. The bonds mature in various amounts through December 1, 2011 and bear interest from 4.75% to 5.25%. The bonds are general obligations of the District. All of the taxable property within the District is subject to the levy of general ad valorem property taxes to pay principal and interest on the bonds.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE C – LONG-TERM DEBT – CONTINUED

The District issued \$6,610,000 of General Obligation Refunding Bonds, Series 2007. Proceeds of the bonds were used to refund \$5,990,000 principal of the District’s General Obligation Bonds, Series 2001, purchase a municipal bond insurance policy, and pay costs of issuing the bonds. The bonds were issued on May 8, 2007, with interest due semiannually on June 1 and December 1 of each year, commencing December 1, 2007. The bonds mature in various amounts through December 1, 2023 and bear interest from 4.0% to 5.0%. The bonds are general obligations of the District. All of the taxable property within the District is subject to the levy of general ad valorem property taxes to pay principal and interest on the bonds.

The following is a summary of bond transactions of the District for the year ended December 31, 2010:

	Balance January 1, 2010	Issues	Reductions	Balance December 31, 2010
2001 General Obligation Bonds	\$ 810,000	\$ –	\$ 395,000	\$ 415,000
2007 General Obligation Refunding Bonds	6,580,000	–	–	6,580,000
Loss on refunding	(232,421)	–	(59,342)	(173,079)
	<u>\$ 7,157,579</u>	<u>\$ –</u>	<u>\$ 335,658</u>	<u>\$ 6,821,921</u>

Debt service requirements are as follows:

Year	Principal	Interest	Total
2011	\$ 415,000	\$ 283,108	\$ 698,108
2012	435,000	261,320	696,320
2013	455,000	239,570	694,570
2014	470,000	222,735	692,735
2015	485,000	205,345	690,345
2016-2020	2,780,000	729,776	3,509,776
2021-2023	1,955,000	158,600	2,113,600
	<u>\$ 6,995,000</u>	<u>\$ 2,100,454</u>	<u>\$ 9,095,454</u>

The loss on the 2007 refunding was \$390,666 and it is being amortized over 79 months.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE D – COMMITMENTS AND CONTINGENCIES

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives have disclosed that there are no material outstanding claims against the District at December 31, 2010.

The District entered into an agreement with the City of Aspen to install Thaw Wires when the District repaves the roads at a future date. In 2003, the District deposited developer contributions of \$96,500, which approximated the amount needed to fund installation at a future date, into a reserve account. Management does not expect future costs of installation to exceed the reserve account balance, which currently is \$116,742.

NOTE E – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and general liability. The District is a member of the Colorado Special District Property and Liability Pool (“Pool”) for property and liability insurance.

The Pool was formed by an intergovernmental agreement to provide public officials, property, general and automobile liability coverage for claims up to \$1,000,000, except if the claim falls within the government immunity statute, then the coverage is \$150,000 per person and a \$600,000 aggregate claim. The Pool is reinsured for 80% of the first \$250,000 of all claims and 100% for claims in excess of \$250,000. The District may be required to make additional contributions in the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts. 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. Any settled claims are not expected to exceed coverage. A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2009 (the latest audited information available) is as follows:

Assets	<u>\$ 30,153,631</u>
Liabilities	\$ 11,972,279
Capital and surplus	<u>18,181,352</u>
Total	<u>\$ 30,153,631</u>
Revenues	\$ 10,445,019
Investment income and other	<u>567,933</u>
Total revenue	11,012,952
Expenses	<u>9,533,550</u>
Excess of revenues over expenses	<u>\$ 1,479,402</u>

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE F – TABOR 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 of the prior year, extension of any expiring tax, or tax policy change directly causing a new 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 or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in future years.

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 the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2010, a reserve of \$33,308 was required.

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1999 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.

In 1998 the District's electorate voted to allow the District to collect, retain and expend revenues notwithstanding any of TABOR's restrictions.

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.

SUPPLEMENTAL INFORMATION

Aspen Highlands Residential Metropolitan District

SCHEDULE OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2010

Calendar Year Ended December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Taxes		Percent Collected to Levied
			Levied	Collected	
2005	\$ 38,081,850	30.000	\$ 1,142,466	\$ 1,142,814	100.00%
2006	38,271,550	34.977	1,338,624	1,339,001	100.03%
2007	36,150,920	36.565	1,321,858	1,321,735	99.99%
2008	45,901,230	33.000	1,514,741	1,515,287	100.04%
2009	47,136,300	33.782	1,592,359	1,588,493	99.76%
2010	58,827,550	30.850	1,814,830	1,756,501	96.79%
2011	58,325,860	31.398	1,831,315		

Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy. 2010 collections were affected by 2008 and 2009 abatements.