



HOLLAND HILLS 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 11, 2011

To the Board of Directors  
Holland Hills Metropolitan District

We have audited the accompanying financial statements of the Holland Hills 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 the Holland Hills Metropolitan District's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Holland Hills Metropolitan District as of December 31, 2010, and the changes in net assets and cash flows 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 an opinion on the 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.*

HOLLAND HILLS METROPOLITAN DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010

The Holland Hills Metropolitan District (the "District") was approved by voters on November 7, 2000, and organized by judicial decree on February 28, 2001 for the purpose of providing certain public infrastructure for the benefit of the residents and property owners within the District. The District is located within Pitkin County, Colorado, and serves a 42-acre residential community located near the Town of Basalt, Colorado.

As the managers of the Holland Hills 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 two components:

1) Government-wide financial statements; and 2) notes to the financial statements.

The *notes* further 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 audited financial statements.

#### ***Government-wide Financial Statements***

The financial statements are those of a special-purpose government engaged only in a business-type activity. The 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 Revenues, Expenses, and Changes in Net Assets presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The business-type activity of the District is the continued operation of a domestic water treatment and distribution system.

HOLLAND HILLS 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 engaged in a business-type activity (providing potable water) and is reported as a proprietary fund.

Proprietary Fund financial statements consist of: a statement of net assets; a statement of revenues, expenses and changes in fund net assets; and a statement of cash flows, and are prepared on an accrual basis of accounting.

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found starting on page 10 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:

|   | 2010       | 2009        |
|---|------------|-------------|
| <b><u>ASSETS:</u></b>                           |            |             |
| Current Assets                                  | \$ 436,243 | 396,618     |
| Capital Assets, Net of Depreciation             | 729,805    | 770,158     |
| Intangible Assets, Net of Amortization          | 34,005     | 37,371      |
| Total Assets                                    | 1,200,053  | 1,204,147   |
| <br><b><u>LIABILITIES:</u></b>                  |            |             |
| Current Liabilities                             | 196,208    | 172,311     |
| Long Term Debt – Current Portion                | 70,000     | 65,000      |
| Long Term Debt – Non-current Portion            | 930,000    | 1,000,000   |
| Total Liabilities                               | 1,196,208  | 1,237,311   |
| <br><b><u>NET ASSETS:</u></b>                   |            |             |
| Invested in Capital Assets, Net of Related Debt | (270,195)  | (294,842)   |
| Restricted for Emergencies                      | 3,562      | 3,361       |
| Restricted for Debt Service & Capital Projects  | 141,751    | 161,407     |
| Unrestricted                                    | 128,727    | 96,910      |
| Total Net Assets (Deficit)                      | \$ 3,845   | \$ (33,164) |

HOLLAND HILLS METROPOLITAN DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010

The largest portion of the District's net assets is reflected in the investment in capital assets, net of related debt. The District uses these assets to provide potable water to its residents. Accordingly, these assets are not an available source for payment of future operational spending.

The deficit balance in net assets in 2009 does not mean that the District did not have resources available to pay its bills. Rather, it is the result of having *long-term* commitments 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. The amount reported as *Invested in Capital Assets, Net of Related Debt* is computed by adding Capital Assets (net of depreciation and amortization) and subtracting the outstanding bonds (or long-term debt, current and non-current portions) that were used to purchase the capital improvements. In the District, the cost of the water system assets is being depreciated over 25 to 40 years, while the bonds are being paid off over 20 years.

***Statement of Revenues, Expenses, and Changes in Net Assets***

The Statement of Revenues, Expenses, and Changes in Net Assets 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:

|  | 2010       | 2009        |
|--|------------|-------------|
| <b><u>REVENUES:</u></b>                    |            |             |
| Property and Ownership Taxes               | \$ 169,561 | \$ 162,608  |
| Fees & Charges                             | 74,659     | 72,241      |
| Interest and Investment Earnings           | 753        | 1,523       |
| Total Revenues and Other Financing Sources | 244,973    | 236,372     |
| <b><u>EXPENSES:</u></b>                    |            |             |
| County Treasurer's Fees                    | 8,275      | 7,863       |
| Insurance                                  | 2,467      | 2,499       |
| Interest Expense                           | 61,238     | 64,325      |
| Management & Professional Fees             | 36,803     | 40,188      |
| Operations & Maintenance                   | 55,461     | 54,301      |
| Amortization and Depreciation              | 43,720     | 43,720      |
| Total Expenses and Other Financing Uses    | 207,964    | 212,896     |
| <b><u>CHANGE IN NET ASSETS:</u></b>        | 37,009     | 23,476      |
| Net Assets, Beginning                      | (33,164)   | (56,640)    |
| Net Assets, Ending                         | \$ 3,845   | \$ (33,164) |

HOLLAND HILLS METROPOLITAN DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010

***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.

**Business-Type (Proprietary) Fund**

Please refer to the tables above, and to pages 8 and 9 of this report, for the following analysis. The ending net assets of the Proprietary, or Business-Type, Fund increased to \$3,845 from <\$33,164>, a net positive increase of \$37,009, or 111%, during the fiscal year ended December 31, 2010. Current assets, consisting primarily of cash and investments, increased by \$39,625, or 10%. This is primarily due to the property taxes receivable (shown as an asset in the Statement of Net Assets on page 7) as well as available cash in the bank accounts.

In the Proprietary Fund, 2010 operating revenues (water-related service fees & assessments) were \$74,558 (see the top of page 8), a slight increase of \$2,392, or 3.4%, over 2009. This is primarily due to two District Board-approved refunds to constituents in 2009 for various contested fees. Non-operating revenues, consisting primarily of property and specific ownership taxes and interest income, were \$169,561, reflecting an increase of 4.3% or \$6,953, compared to 2009. This is primarily due to a mill levy error in 2009 on the part of the Pitkin County Assessor's Office that resulted in lower-than-anticipated property tax revenues in 2009, accompanied by an increase in the assessed valuation (but a lower mill levy) in the District for the 2010 budget year. Operating expenses in 2010, consisting of management, professional fees, insurance, and operations & maintenance costs, decreased by \$2,257, or 2.4%, when compared to 2009 (a total of \$94,731 in 2010 against \$96,988 in 2009). Non-operating expenses, consisting of treasurer's fees, debt service interest, and amortization & depreciation, decreased by 2.3%, or \$2,675, from 2009, primarily due to a reduction in debt service interest for 2010.

***BUDGET VARIANCES***

A summary of budget-to-actual expenses for the Proprietary Fund can be found on page 19 of this report. Overall 2010 revenues were essentially even with budgeted projections, with a reduction in interest earnings offset by higher-than-anticipated specific ownership taxes (registration fees on vehicles, boats, trailers, etc). Expenses for 2010, as a whole, were \$46,747 lower than budgeted, and this is primarily the result of a significant savings in operations and maintenance, as well as the non-expenditure of the contingency budget. Budget overages occurred in accounting & legal fees (due to legal costs associated with protecting the District's water rights), and miscellaneous expenses. Budget savings were realized in the areas of management fees, operations and maintenance, solid waste collection, utilities, engineering, insurance, interest, and contingency.

HOLLAND HILLS METROPOLITAN DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2010

***CAPITAL ASSETS***

The District's net capital assets in 2010 decreased by \$40,353 due to current-year depreciation. Additional information, as well as a detailed classification of the District's net capital assets, can be found in the Notes to the Financial Statements on page 15 of this report.

***DEBT ADMINISTRATION***

Currently (as of 12/31/10) the District has \$1,000,000 in General Obligation Debt. The bonds were issued in 2002 to finance the construction of a community water system. Interest payments are made semi-annually on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, and principal is due on December 1<sup>st</sup> of each year. The final maturity date is December 1, 2021. The bonds are callable in the year 2013, and the District Board desires to pay down the bonds as much as possible at this time.

***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:

Holland Hills 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

Holland Hills Metropolitan District

STATEMENT OF NET ASSETS

December 31, 2010

| ASSETS  |                                  |    |                         |
|---|----------------------------------|----|-------------------------|
| Current assets  |                                  |    |                         |
| Cash and cash equivalents                                 |                                  | \$ | 85,052                  |
| Receivables   |                                  |    |                         |
| Accounts receivable                                       |                                  |    | 22,440                  |
| Property taxes  |                                  |    | 186,387                 |
| Prepaid expenses  |                                  |    | 613                     |
|   | Total current assets             |    | <u>294,492</u>          |
| Noncurrent assets   |                                  |    |                         |
| Restricted cash   |                                  |    | 141,751                 |
| Bond issuance and organization costs, net of amortization |                                  |    | 34,005                  |
| Capital assets, net of depreciation                       |                                  |    | 729,805                 |
| Total noncurrent assets                                   |                                  |    | <u>905,561</u>          |
|   | Total assets                     | \$ | <u><u>1,200,053</u></u> |
| LIABILITIES AND NET ASSETS                                |                                  |    |                         |
| Current liabilities                                       |                                  |    |                         |
| Accounts payable  |                                  | \$ | 4,976                   |
| Deferred property taxes                                   |                                  |    | 186,387                 |
| Accrued interest payable                                  |                                  |    | 4,845                   |
| Current portion of bonds payable                          |                                  |    | 70,000                  |
|   | Total current liabilities        |    | <u>266,208</u>          |
| Bonds payable, less current portion                       |                                  |    | 930,000                 |
|   | Total liabilities                |    | <u>1,196,208</u>        |
| Net assets  |                                  |    |                         |
| Invested in capital assets, net of related debt           |                                  |    | (270,195)               |
| Restricted for debt service and capital projects          |                                  |    | 141,751                 |
| Restricted for emergencies                                |                                  |    | 3,562                   |
| Unrestricted  |                                  |    | 128,727                 |
|   | Total net assets                 |    | <u>3,845</u>            |
|   | Total liabilities and net assets | \$ | <u><u>1,200,053</u></u> |

The accompanying notes are an integral part of this statement.

Holland Hills Metropolitan District

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year ended December 31, 2010

|                                   |   |                     |
|-----------------------------------|---|---------------------|
| Operating revenues                |   |                     |
| Service fees and assessments      | \$                                      | 74,558              |
| Operating expenses                |   |                     |
| Operations and maintenance        |   | 35,803              |
| Management fees                   |   | 13,510              |
| Depreciation                      |   | 40,353              |
| Accounting and legal fees         |   | 21,314              |
| Solid waste collection            |   | 14,781              |
| Engineering                       |   | 1,979               |
| Utilities                         |   | 2,926               |
| Insurance                         |   | 2,467               |
| Miscellaneous expenses            |   | 1,951               |
|                                   | Total operating expenses                | <u>135,084</u>      |
|                                   | Operating income (loss)                 | (60,526)            |
| Non-operating revenues (expenses) |   |                     |
| Property taxes                    |   | 165,292             |
| Specific ownership tax            |   | 4,269               |
| Miscellaneous                     |   | 101                 |
| Interest income                   |   | 753                 |
| Treasurer fees                    |   | (8,275)             |
| Amortization                      |   | (3,367)             |
| Interest expense                  |   | (61,238)            |
|                                   | Total non-operating revenues (expenses) | <u>97,535</u>       |
|                                   | Change in net assets                    | 37,009              |
| Net assets, beginning of year     |   | <u>(33,164)</u>     |
| Net assets, end of year           | \$                                      | <u><u>3,845</u></u> |

The accompanying notes are an integral part of this statement.

Holland Hills Metropolitan District

STATEMENT OF CASH FLOWS

Year ended December 31, 2010

|   |                           |
|---|---------------------------|
| Cash flows from operating activities  |                           |
| Cash received from charges for services   | \$ 73,710                 |
| Cash payments to suppliers  | (91,652)                  |
| Net cash provided by (used in) operating activities   | <u>(17,942)</u>           |
| Cash flows from noncapital financing activities   |                           |
| Cash received from property tax collections   | 169,561                   |
| Treasurer fees paid   | (8,275)                   |
| Other receipts  | 101                       |
| Net cash provided by (used in) noncapital financing activities                                  | <u>161,387</u>            |
| Cash flows from capital and related financing activities  |                           |
| Principal payments on debt  | (65,000)                  |
| Interest paid   | (61,520)                  |
| Net cash provided by (used in) capital and related financing activities                         | <u>(126,520)</u>          |
| Cash flows from investing activities  |                           |
| Interest received   | 753                       |
| Net cash provided by (used in) investing activities   | <u>753</u>                |
| INCREASE IN CASH AND CASH EQUIVALENTS   | 17,678                    |
| Cash and cash equivalents at the beginning of the year  | <u>209,125</u>            |
| Cash and cash equivalents at the end of the year  | <u><u>\$ 226,803</u></u>  |
| Reconciliation of Operating Loss to Net Cash  |                           |
| Provided by (Used in) Operating Activities  |                           |
| Operating loss  | \$ (60,526)               |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: |                           |
| Depreciation  | 40,353                    |
| (Increase) decrease in accounts receivable  | (848)                     |
| (Increase) decrease in prepaid expenses   | (5)                       |
| Increase (decrease) in accounts payable   | 3,084                     |
| Total adjustments   | <u>42,584</u>             |
| Net cash provided by (used in) operating activities   | <u><u>\$ (17,942)</u></u> |

The accompanying notes are an integral part of this statement.

Holland Hills Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

1. Organization

The Holland Hills Metropolitan District (the District) was approved by voters on November 7, 2000, and organized by judicial decree on February 28, 2001, 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 elected by the registered voters within the District. The purpose of the District is to manage the operation of all the facilities and improvements needed for the Holland Hills Metropolitan District, which is located within Pitkin County.

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.

The District is a special-purpose government engaged only in a business-type activity. For this type of government, only enterprise fund financial statements are presented.

3. Basis of Presentation – Fund Accounting

The accounts of the District are organized and operated on a fund basis. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to those applicable to businesses in the private sector.

Holland Hills Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

GASB Statement No. 34 sets forth minimum criteria for the determination of major funds to be presented in the financial statements. Since the operations of the District are accounted for on a fund basis in a single enterprise fund, it is the only fund presented.

Enterprise funds may be used to account for operations (a) that are financed and operated in a manner similar to business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

4. Basis of Accounting

Basis of accounting refers to when revenues or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Proprietary (enterprise) funds are presented on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of a fund are included on the statements of net assets. Net assets are categorized as investment in capital assets, net of related debt; restricted for emergencies; and unrestricted. Fund operating statements present increases (e.g., revenues and contributions) and decreases (e.g., expenses) in net assets. Proprietary funds are presented on an accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The District uses the accrual basis of accounting. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first.

Operating revenues and expenses for enterprise funds are those that result from providing services and producing and delivering goods and/or services within the scope of the enterprise operation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenues from grants are recognized in the year in which all eligibility requirements have been satisfied.

5. Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents.

Holland Hills Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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.

7. 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 basis of accounting differs from the generally accepted accounting principles (GAAP) basis in that depreciation and amortization are excluded from expenditures, and outlays for the acquisition of capital assets and debt service principal are included as expenditures.

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.
- (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.

Holland Hills Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

- (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.

There were no supplemental appropriations made during 2010.

8. Capital Assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District's capitalization policy is to capitalize major outlays for capital assets and improvements that are over \$10,000.

Depreciation is computed using the straight-line method over estimated useful lives, as follows:

|                | <u>Estimated Lives</u> |
|----------------|------------------------|
| Infrastructure | 25 to 40 years         |
| Equipment      | 5 to 25 years          |
| Water system   | 25 to 40 years         |

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.

10. Accounts Receivable

The District considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Holland Hills Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

11. Bond Issuance and Organization Costs

Bond issuance costs are amortized using the straight-line method, which approximates the interest method, over the life of the bonds. Organization costs are amortized using the straight-line method over 15 years. Accumulated amortization amounted to \$30,111 at December 31, 2010.

12. Governmental Accounting Standards Board (GASB) Statement Number 20

The District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on accounting procedure issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**NOTE B – CASH AND INVESTMENTS**

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that 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 is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. At December 31, 2010 the District's cash deposits of \$26,237 were entirely insured.

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 of behalf of the local government.

The District had invested \$200,761 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 the trust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in an account maintained for the custodial bank. The custodian's internal records identify the investments owned by the trust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. \$141,751 of Colotrust investments are restricted for use as debt service and certain capital projects as of December 31, 2010.

Holland Hills Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

**NOTE D – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2010 was as follows:

|   | <u>Balance<br/>12/31/09</u> | <u>Additions</u>   | <u>Deletions</u> | <u>Balance<br/>12/31/10</u> |
|---|-----------------------------|--------------------|------------------|-----------------------------|
| Capital assets being depreciated            |                             |                    |                  |                             |
| Equipment                                   | \$ 58,497                   | \$ –               | \$ –             | \$ 58,497                   |
| Water system                                | 966,592                     | –                  | –                | 966,592                     |
| Infrastructure                              | <u>25,679</u>               | <u>–</u>           | <u>–</u>         | <u>25,679</u>               |
| Total capital assets being depreciated      | 1,050,768                   | –                  | –                | 1,050,768                   |
| Less accumulated depreciation for           |                             |                    |                  |                             |
| Equipment                                   | 16,573                      | 2,340              | –                | 18,913                      |
| Water system                                | 258,473                     | 36,986             | –                | 295,459                     |
| Infrastructure                              | <u>5,564</u>                | <u>1,027</u>       | <u>–</u>         | <u>6,591</u>                |
| Total accumulated depreciation              | <u>280,610</u>              | <u>40,353</u>      | <u>–</u>         | <u>320,963</u>              |
| Total capital assets being depreciated, net | <u>\$ 770,158</u>           | <u>\$ (40,353)</u> | <u>\$ –</u>      | <u>\$ 729,805</u>           |

Depreciation expense for 2010 was \$40,353.

**NOTE E – BOND ISSUE COSTS**

During 2002, the District issued \$1,500,000 in bonds. The District incurred \$54,404 in expense related to the issuance of these bonds. These costs are capitalized for the Statement of Net Assets and amortized over the life of the issuance of the bonds. A summary of the activity for the year is as follows:

|                          | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|--------------------------|------------------------------|-------------------|-------------------|---------------------------|
| Bond costs               | \$ 54,404                    | \$ –              | \$ –              | \$ 54,404                 |
| Accumulated amortization | <u>(21,760)</u>              | <u>(2,720)</u>    | <u>–</u>          | <u>(24,480)</u>           |
|                          | <u>\$ 32,644</u>             | <u>\$ (2,720)</u> | <u>\$ –</u>       | <u>\$ 29,924</u>          |

Holland Hills Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

**NOTE F – LONG-TERM LIABILITIES**

|                               | <u>Balance<br/>12/31/09</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance<br/>12/31/10</u> | <u>Amounts<br/>Due Within<br/>One Year</u> |
|-------------------------------|-----------------------------|------------------|-------------------|-----------------------------|--|
| 2002 General Obligation Bonds | \$ 1,065,000                | \$ —             | \$ 65,000         | \$ 1,000,000                | \$ 70,000                                  |
| Total                         | <u>\$ 1,065,000</u>         | <u>\$ —</u>      | <u>\$ 65,000</u>  | <u>\$ 1,000,000</u>         | <u>\$ 70,000</u>                           |

\$1,500,000 in General Obligation Bonds were issued on January 15, 2002. The interest rate varies from 2.4% to 6.0% payable semi-annually on June 1, and December 1. Principal is due and payable on December 1. The final maturity date is December 1, 2021.

The annual requirements to amortize the long-term debt are as follows:

| <u>Year</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|-------------|---------------------|-------------------|---------------------|
| 2011        | \$ 70,000           | \$ 58,140         | \$ 128,140          |
| 2012        | 70,000              | 54,430            | 124,430             |
| 2013        | 75,000              | 50,650            | 125,650             |
| 2014        | 80,000              | 46,525            | 126,525             |
| 2015        | 85,000              | 42,045            | 127,045             |
| 2016-2020   | 500,000             | 129,000           | 629,000             |
| 2021        | <u>120,000</u>      | <u>7,200</u>      | <u>127,200</u>      |
|             | <u>\$ 1,000,000</u> | <u>\$ 387,990</u> | <u>\$ 1,387,990</u> |

**NOTE G – 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 has disclosed that there are no material outstanding claims against the District and December 31, 2010.

**NOTE H – 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.

Holland Hills Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

**NOTE H – RISK MANAGEMENT – CONTINUED**

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:

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

**NOTE I – 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 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 or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in future years.

Holland Hills Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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**NOTE I – TABOR AMENDMENT – CONTINUED**

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 \$3,562 was required.

Under TABOR, the initial base for local government-spending and revenue limits is December 31, 2001 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 2001 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**

Holland Hills Metropolitan District

SCHEDULE OF REVENUES AND EXPENSES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

Year ended December 31, 2010

|   | Original<br>Budget | Final Budget       | Actual           | Variance<br>Favorable<br>(Unfavorable) |
|---|--------------------|--------------------|------------------|--|
| <b>Revenues</b>                             |                    |                    |                  |  |
| Service fees and assessments                | \$ 73,722          | \$ 73,722          | \$ 74,558        | \$ 836                                 |
| Property taxes                              | 165,293            | 165,293            | 165,292          | (1)                                    |
| Specific ownership taxes                    | 3,306              | 3,306              | 4,269            | 963                                    |
| Interest income                             | 1,775              | 1,775              | 753              | (1,022)                                |
| Miscellaneous income                        | -                  | -                  | 101              | 101                                    |
| Total revenues                              | <u>244,096</u>     | <u>244,096</u>     | <u>244,973</u>   | <u>877</u>                             |
| <b>Expenses</b>                             |                    |                    |                  |  |
| Operations and maintenance                  | 62,551             | 62,551             | 35,803           | 26,748                                 |
| Management fees                             | 14,500             | 14,500             | 13,510           | 990                                    |
| Accounting and legal fees                   | 19,191             | 19,191             | 21,314           | (2,123)                                |
| Solid waste collection                      | 17,232             | 17,232             | 14,781           | 2,451                                  |
| Utilities                                   | 4,585              | 4,585              | 2,926            | 1,659                                  |
| Engineering                                 | 6,500              | 6,500              | 1,979            | 4,521                                  |
| Insurance                                   | 2,499              | 2,499              | 2,467            | 32                                     |
| Miscellaneous expenses                      | 1,113              | 1,113              | 1,951            | (838)                                  |
| Treasurer fees                              | 8,265              | 8,265              | 8,275            | (10)                                   |
| Interest expense                            | 61,520             | 61,520             | 61,238           | 282                                    |
| Debt service principal                      | 65,000             | 65,000             | 65,000           | -                                      |
| Contingency                                 | 13,035             | 13,035             | -                | 13,035                                 |
| Total expenses                              | <u>275,991</u>     | <u>275,991</u>     | <u>229,244</u>   | <u>46,747</u>                          |
| Excess of revenues over<br>(under) expenses | <u>\$ (31,895)</u> | <u>\$ (31,895)</u> | 15,729           | <u>\$ 47,624</u>                       |
| <b>Adjustments to GAAP basis</b>            |                    |                    |                  |  |
| Depreciation and amortization               |                    |                    | (43,720)         |  |
| Debt service principal payments             |                    |                    | <u>65,000</u>    |  |
| Change in net assets                        |                    |                    | <u>\$ 37,009</u> |  |

Holland Hills Metropolitan District

SCHEDULE OF ASSESSED VALUATION, MILL LEVY  
AND PROPERTY TAXES COLLECTED

December 31, 2010

| Calendar<br>Year Ended<br>December 31 | Prior Year<br>Assessed Valuation<br>for Current Year<br>Property Tax Levy | Mills<br>Levied | Total Property Taxes |            | Percent<br>Collected<br>to Levied |
|---------------------------------------|---|-----------------|----------------------|------------|-----------------------------------|
|                                       |   |                 | Levied               | Collected  |                                   |
| 2005                                  | \$ 2,091,440  | 55.416          | \$ 115,900           | \$ 116,821 | 100.79%                           |
| 2006                                  | 2,268,960   | 55.435          | 125,780              | 125,780    | 100.00%                           |
| 2007                                  | 2,260,780   | 54.811          | 123,916              | 123,916    | 100.00%                           |
| 2008                                  | 3,394,610   | 48.143          | 163,427              | 163,369    | 99.97%                            |
| 2009                                  | 3,402,320   | 46.277          | 157,449              | 157,449    | 100.00%                           |
| 2010-General                          | 4,985,840   | 10.615          | 52,925               | 52,925     | 100.00%                           |
| 2010-Bonds                            | 5,192,500   | 21.641          | 112,368              | 112,367    | 100.00%                           |
| 2011-General                          | 4,986,470   | 10.291          | 51,316               |            |                                   |
| 2011-Bonds                            | 5,193,430   | 26.008          | 135,071              |            |                                   |

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.