

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO**

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**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

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**DECEMBER 31, 2005**

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Hamilton Creek Metropolitan District  
Silverthorne, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hamilton Creek Metropolitan District (the District), Silverthorne, Colorado, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the District. 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 financial position of the governmental activities and each major fund of the District, as of December 31, 2005, and the respective changes in financial position 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 on pages i through iii 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 District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hiratsuka & Schmitt, LLP*

Denver, Colorado  
November 11, 2006

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2005**

As management of the Hamilton Creek Metropolitan District (the District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our annual audited financial statements.

**Financial Highlights**

- The liabilities of the District exceeded its assets at the close of the most recent year by \$5,823,859. Of this amount, \$1,938,461 was invested in capital assets of the District and may not be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$351,863 due in part to the court ordered mandate to continue to accrue interest on interest in the amount of \$422,407 related to the general obligation bonds. The principal on these bonds was repaid in 2004 and no further interest on the bonds was accrued.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's governmental type fund financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information that provides comparisons of budget to actual on the US GAAP (Accounting Principles Generally Accepted in the United States of America) budgetary basis.

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

The statement of net assets presents information on all of 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 District's net assets changed during the most recent 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 government-wide financial statements distinguish functions of District revenues that are principally supported by taxes, user and tap fees and other revenues. District expenditures distinguish between general and debt service fund expenditures. The government-wide financial statements can be found on pages 1 and 2 of this report.

**Fund financial statements** - a fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District adopts an annual appropriated budget for its two funds as required by State Statute. The budgetary comparison statements are provided to demonstrate compliance with this budget.

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

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

**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 financial statements.

**Comparative Statements of Net Assets**

	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 391,003	\$ 283,762
Capital assets	1,938,462	1,875,638
Total assets	<u>2,329,465</u>	<u>2,159,400</u>
Long-term liabilities		
outstanding	7,699,191	6,608,689
Other liabilities	454,133	338,736
Total liabilities	<u>8,153,324</u>	<u>6,947,425</u>
Net assets:		
Invested in capital assets		
Net of related debt	(5,760,930)	(4,548,051)
Restricted for TABOR	3,400	3,400
Unrestricted (deficit)	(66,329)	(243,374)
Total net assets (deficit)	<u>\$ (5,823,859)</u>	<u>\$ (4,788,025)</u>

**Comparative Statements of Activities**

	<u>2005</u>	<u>2004</u>
Revenue	\$ 380,876	\$ 375,538
Expenditures:		
Current	296,505	238,618
Debt service	436,234	1,031,326
Total expenditures	<u>732,739</u>	<u>1,269,944</u>
Change in net assets	(351,863)	(894,406)
Net assets – beginning – (deficit)	<u>(5,471,996)</u>	<u>(4,622,590)</u>
Net assets – ending – (deficit)	<u>\$ (5,823,859)</u>	<u>\$ (5,471,996)</u>

## **FUTURE PLANS:**

- Continue to encourage conservation of water through education and escalating water rates.
- Install electronic read water meters to allow quick identification of water leaks or excess usage.
- Begin the development of plans for a permanent replacement of the District water pump station and treatment facility in the next three to five years. The water facility constructed to repair the contamination in the District water in 2003 was a temporary facility.
- Continue forest management work including removal of beetle infested trees and annual protective spraying of susceptible health trees. The long-term goal is to thin the forested areas and plant spruce seedlings to improve the diversity and health of the forest.
- Road maintenance will include annual asphalt crack filling to extend the life of the roads.

## **Requests for Information**

**This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the:**

Hamilton Creek Metropolitan District  
Bob Polich, District Administrator  
PO Box 627  
Frisco, Colorado 80443-0672  
(970) 668-5500 Ext. 12  
(970) 668-5534 Fax  
[admin@hamiltoncreek.org](mailto:admin@hamiltoncreek.org)  
[www.hamiltoncreek.org](http://www.hamiltoncreek.org)

HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Governmental Funds - Balance Sheet/Statement of Net Assets  
December 31, 2005

	General	Debt Service	Total	Adjustments (Note 5)	Statement of Net Assets
<b>Assets:</b>					
Cash and cash equivalents	\$ 19,786	\$ -	\$ 19,786	\$ -	\$ 19,786
Investments	1,946	1,308	3,254	-	3,254
Accounts receivable:					
Customer	1,497	-	1,497	-	1,497
Taxes - current	-	4,295	4,295	-	4,295
Homeowners	73,708	-	73,708	-	73,708
Taxes - assessed	-	288,464	288,464	-	288,464
Internal balances	61,608	-	61,608	(61,608)	-
Capital assets, net of accumulated depreciation where applicable:					
Road system	-	-	-	971,366	971,366
Water system	-	-	-	888,734	888,734
Construction in progress	24,000	-	24,000	54,361	78,361
<b>Total assets</b>	<b>\$182,545</b>	<b>\$ 294,067</b>	<b>\$ 476,612</b>	<b>1,852,853</b>	<b>2,329,465</b>
<b>Liabilities:</b>					
Accounts payable	125,794	-	125,794	-	125,794
Construction deposits	24,000	-	24,000	-	24,000
Deferred tax revenues	-	288,464	288,464	-	288,464
Internal balances	-	61,608	61,608	(61,608)	-
Accrued interest	15,675	-	15,675	-	15,675
Long term liabilities:					
Note payable - operations	-	-	-	185,000	185,000
Matured interest payable	-	-	-	3,619,466	3,619,466
Interest on matured interest payable	-	-	-	3,894,925	3,894,925
<b>Total liabilities</b>	<b>165,469</b>	<b>350,072</b>	<b>515,541</b>	<b>7,637,783</b>	<b>8,153,324</b>
<b>Fund balance/Net assets</b>					
Fund balances:					
Reserved for:					
Tabor	3,400	-	3,400	(3,400)	-
Debt service	-	(56,005)	(56,005)	56,005	-
Unreserved:					
General	13,676	-	13,676	(13,676)	-
<b>Total fund balances</b>	<b>17,076</b>	<b>(56,005)</b>	<b>(38,929)</b>	<b>38,929</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$182,545</b>	<b>\$ 294,067</b>	<b>\$ 476,612</b>		
<b>Net assets:</b>					
Invested in capital assets, net of related debt				(5,760,930)	(5,760,930)
Restricted for:					
TABOR				3,400	3,400
Unrestricted (deficit)				(66,329)	(66,329)
<b>Total net assets</b>				<b>\$ (5,823,859)</b>	<b>\$ (5,823,859)</b>

The accompanying notes are an integral part of this financial statement.

**HAMILTON CREEK METROPOLITAN DISTRICT**  
**SILVERTHORNE, COLORADO**  
**Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balance/**  
**Statement of Activities**  
**For the year ended December 31, 2005**

	General	Debt Service	Total	Adjustments (Note 5)	Statement of Activities
<b>Revenue:</b>					
Property taxes	\$ -	\$275,627	\$ 275,627	\$ -	\$ 275,627
Specific ownership taxes	-	17,914	17,914	-	17,914
Interest	2,102	-	2,102	-	2,102
Development fees	-	5,000	5,000	-	5,000
User fees	48,733	-	48,733	-	48,733
Water tap fees	-	31,500	31,500	-	31,500
<b>Total revenue</b>	<b>50,835</b>	<b>330,041</b>	<b>380,876</b>	<b>-</b>	<b>380,876</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Administration	33,000	7,500	40,500	-	40,500
Legal and audit fees	3,184	14,895	18,079	-	18,079
Director's expense	1,425	-	1,425	-	1,425
Insurance	1,825	-	1,825	-	1,825
Road maintenance	59,609	-	59,609	-	59,609
Water system maintenance	88,166	-	88,166	-	88,166
Forest maintenance	51,487	-	51,487	-	51,487
Utility operations	3,693	-	3,693	-	3,693
Septic maintenance	12,645	-	12,645	-	12,645
Office supplies and postage	1,603	-	1,603	-	1,603
Membership dues	799	-	799	-	799
Telephone	837	-	837	-	837
Miscellaneous	275	-	275	-	275
Discount	25	-	25	-	25
Depreciation	-	-	-	15,537	15,537
Capital expenditures	54,361	-	54,361	(54,361)	-
<b>Debt service:</b>					
Interest	15,675	-	15,675	406,732	422,407
County Treasurer fees	-	13,827	13,827	-	13,827
<b>Total expenditures</b>	<b>328,609</b>	<b>36,222</b>	<b>364,831</b>	<b>367,908</b>	<b>732,739</b>
<b>Excess (deficiency) of revenue over (under) expenditures</b>	<b>(277,774)</b>	<b>293,819</b>	<b>16,045</b>	<b>(367,908)</b>	<b>(351,863)</b>
<b>Other financing sources (uses):</b>					
Transfer - internal activities	291,450	(291,450)	-	-	-
<b>Total other financing sources (uses)</b>	<b>291,450</b>	<b>(291,450)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess of revenues and transfers in over over expenditures and transfers out</b>	<b>13,676</b>	<b>2,369</b>	<b>16,045</b>	<b>(16,045)</b>	<b>-</b>
<b>Change in net assets</b>					<b>(351,863)</b>
Fund balance/net assets - beginning of year (as restated)	3,400	(58,374)	(54,974)	(5,417,022)	(5,471,996)
<b>Fund balance/net assets (deficit) - end of year</b>	<b>\$ 17,076</b>	<b>\$ (56,005)</b>	<b>\$ (38,929)</b>	<b>\$ (5,433,067)</b>	<b>\$ (5,823,859)</b>

The accompanying notes are an integral part of this financial statement.



HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
General Fund - Statement of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the year ended December 31, 2005

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenue:</b>			
Interest	\$ 300	\$ 2,102	\$ 1,802
User fees	44,500	48,733	4,233
<b>Total revenue</b>	<b>44,800</b>	<b>50,835</b>	<b>6,035</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Administration	33,000	33,000	-
Legal and audit fees	3,500	3,184	316
Directors' expense	1,500	1,425	75
Insurance	2,000	1,825	175
Road maintenance	32,000	59,609	(27,609)
Water system maintenance	75,000	88,166	(13,166)
Forest maintenance	20,000	51,487	(31,487)
Utility operations	3,500	3,693	(193)
Septic maintenance	16,500	12,645	3,855
Office supplies and postage	2,750	1,603	1,147
Membership dues	1,000	799	201
Telephone	900	837	63
Miscellaneous	500	275	225
Discount		25	(25)
Capital expenditures	10,000	54,361	(44,361)
<b>Debt service:</b>			
Interest	103,175	15,675	87,500
<b>Total expenditures</b>	<b>305,325</b>	<b>328,609</b>	<b>(23,284)</b>
<b>Excess of revenue (under) expenditures</b>	<b>(260,525)</b>	<b>(277,774)</b>	<b>(17,249)</b>
<b>Other financing sources:</b>			
Transfer - internal activities	260,525	291,450	30,925
<b>Total other financing sources (uses)</b>	<b>260,525</b>	<b>291,450</b>	<b>30,925</b>
<b>Excess (deficiency) of revenue and transfers in over expenditures</b>	<b>\$ -</b>	<b>13,676</b>	<b>\$ 13,676</b>
Fund balance - beginning of year		3,400	
<b>Fund balance - end of year</b>		<b>\$ 17,076</b>	

The accompanying notes are an integral part of this financial statement.

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
December 31, 2005**

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**1. Summary of significant accounting policies**

The accounting policies of the Hamilton Creek Metropolitan District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The following is a summary of the more significant policies consistently applied in the preparation of the financial statements.

**Reporting entity**

The Hamilton Creek Metropolitan District, Silverthorne, Colorado, was organized May 1, 1985, and is governed by a five-member elected Board of Directors. The District currently provides water, septic tank pumping, street maintenance, snow removal and forest maintenance (parks) services to the geographical area organized as the Hamilton Creek Metropolitan District. The District provides metered water for a fixed quarterly rate, charging additional fees for excessive usage.

The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement No 14, *The Financial Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations Are Component Units*.

**Basis of presentation**

The accompanying financial statements are presented per GASB Statement No. 34, Sp 20 Special Purpose Governments.

The government-wide financial statements (i.e. the statement of net assets and the statement of revenues, expenses, and changes in fund net assets) report information on the *governmental-type activities* of the District, which rely to a significant extent on taxes and intergovernmental payments and user fees for support. The statement of activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by taxes, user and tap fees.

**Measurement focus, basis of accounting and financial statement presentation**

The governmental fund financial statements are reported using the *current financial measurement focus* and the *accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

The District has two governmental funds, which accounts for the financial resources of the District.

**District Plan of Reorganization**

On May 31, 1989, the District filed for Reorganization under Chapter 9 of the Bankruptcy Laws in the United States Bankruptcy Court for the District of Colorado. On February 1, 1990 the Court accepted the Plan of Reorganization (the Plan). The District is currently operating under the terms of the Plan, see also footnote 4 'Litigation' for additional information related to the reorganization.

1. **Summary of significant accounting policies (continued)**

**Measurement focus, basis of accounting and basis of presentation (continued)**

Governmental funds include the following fund types:

**General Fund** - accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund currently reports amounts expended for maintaining the District's water system, as the current levels of activity do not warrant the use of a separate proprietary fund to report utility activities.

**Debt Service Fund** - debt service funds are generally used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs. However, the District Plan of Reorganization mandates that this fund account for all District property taxes, specific ownership taxes and tap fees in a debt service fund. In addition the Plan mandates:

- A yearly transfer to the General fund in an amount sufficient to cover operating expenditures in excess of revenue. The current year required a transfer of \$291,450.
- Payments of principal on bonded debt, repaid in 2004.
- Payment to the Capital Improvement Reserve. The required payments were made in prior years equal to a predetermined schedule as required by the Plan; however the District does not currently have sufficient net assets to maintain the reserve.
- Unexpended reserve amounts to be reported on the balance sheet of the Debt Service fund as a "reservation for capital improvements."

**Assets, liabilities and equity**

**Fair value of financial instruments**

The District's financial instruments include cash and cash equivalents, investments, accounts receivable, accounts payable and long-term liabilities. Due to the short maturity of these instruments, the District estimates that the fair value of all financial instruments at December 31, 2005 does not differ materially from the aggregate carrying values recorded in the accompanying balance sheet.

**Estimates**

The preparation of financial statements in conformity with US GAAP requires District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Internal balances**

The effect of interfund activity has been eliminated from the government wide financial statements.

1. **Summary of significant accounting policies (continued)**

**Assets, liabilities and equity (continued)**

**Property taxes**

Property taxes are levied on December 15 of each year and attach as an enforceable lien on property as of January 1. Taxes are due as of January 1 of the following year and are payable in two equal installments due February 28 and June 15 if paid in installments, or April 30 if paid with a single payment. Taxes are delinquent as of August 1. If the taxes are not paid within subsequent statutory periods, the property will be sold at public auction. The County bills and collects the property taxes and remits collections to the District on a monthly basis. No provision has been made for uncollected taxes, as all taxes are deemed fully collectible.

**Capital assets**

All purchased capital assets of the road, and water systems equipment are recorded at historical cost. The water system is depreciated over its estimated useful life of 75 years using the straight line method. The road system and construction in progress are not being depreciated.

**Construction deposits**

The District collects deposits from developers that will be refunded net of any District expenditures to repair developer damage to the infrastructure.

2. **Stewardship, compliance and accountability**

**Budgetary information**

In compliance with Colorado Revised Statutes, the District conforms to the following procedures, in establishing the budgetary data reflected in the financial statements:

Prior to October 15 of each year the District manager (not an elected official) submits a proposed operating budget for the fiscal year commencing the following January 1 to the Board of Directors (elected officials). The operating budget for the funds includes proposed expenditures and the means of financing them.

Public hearings are held at the regular Board of Directors' meetings to obtain taxpayer input. Prior to December 15 the budget is legally enacted through passage of a budget resolution. The Board of Directors must approve revisions that change total expenditures of the fund.

Colorado Revised Statutes require a balanced budget. Expenditures in the General Fund exceed budget as the District incurred the cost of extending service lines into adjacent subdivisions, these expenditures were funded by prepayments from the homeowners. Expenditures of the Debt Service fund exceed budget because of unexpected required additional legal fees related to ongoing litigation. The excess was funded by available resources.

**3. Detailed notes concerning the funds**

**Deposits and investments – Custodial Credit Risk**

**Deposits**

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 equal to 102% of the aggregate uninsured deposits.

As of December 31, 2005, all of the District's deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

**Investments**

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments include:

State regulated local government investment pools  
Obligations of the United States Government

The District invests in one Local Government Investment Pool, COLOTRUST. Investments in the pool are not categorized because the investments are not evidenced by securities that exist in physical or book entry form. As of December 31, 2005 District investments in the pool, carrying and fair value, were \$1,946.

As of December 31, 2005, the District had a remaining balance with the bond Trustee. The bonds were repaid in 2004. The remaining balance at December 31, 2005 is \$1,308.

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
December 31, 2005**

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**3. Detailed notes concerning the funds (continued)**

**Capital assets**

The following is a summary of the District's general fixed assets at December 31, 2005:

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Road system	\$	971,366
Construction in progress		78,361
Water System		1,165,276
Less: accumulated depreciation – water system		(276,542)
<b>Total</b>	<b>\$</b>	<b>1,938,461</b>

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During the year the District had no addition to capital assets, excepting the District began construction of water lines to new sub-divisions which is recorded as constriction in progress in amount of \$78,361.

**General long-term debt**

On July 15, 1985 the District issued General Obligation bonds in the principal amount of \$2,125,000 with an effective interest rate of 11.25%. Interest is payable on June 1 and December 1 of each year, and the principal matures on December 1 of each year through 2004. The bonds are subject to certain provisions regarding early redemption on each of the interest payment dates.

As result of the District Plan of Reorganization, the original bonds were replaced with "New Bonds" which retained the same terms, conditions and guarantees as the original bonds except that the premium on early retirement was removed. The District Plan of Reorganization imposed certain other limitations and requirements on the District including:

- A requirement that the District reserve fund balance in an amount equal to the fair market value of the Stripped U.S. Treasury Securities which are due to mature on November 15, 2004 in the principal amount of \$2,100,000. On November 15, 2004 the securities were used to redeem the principal amount on the bonds.
- A requirement that the District accrue interest on unpaid matured interest coupons at the rate of 11.25% per annum, which is to be paid ratably with the matured interest as funds become available.
- A requirement that after 1995 the bond mil levy is limited to 40 mils.

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
December 31, 2005**

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**3. Detailed notes concerning the funds (continued)**

**General long-term debt (continued)**

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

	<b>Interest New Bonds</b>	<b>Matured Interest Coupons</b>	<b>Total</b>
1989	\$ 51,302	\$ 546,726	\$ 598,028
1990	238,725	411,717	650,442
1991	238,613	384,675	623,288
1992	238,500	357,657	596,157
1993	238,387	330,679	569,066
1994	238,275	303,712	541,987
1995	238,163	276,772	514,935
1996	238,050	249,806	487,856
1997	237,937	222,978	460,915
1998	237,825	196,114	433,939
1999	237,713	169,277	406,990
2000	237,600	142,474	380,074
2001	237,487	115,696	353,183
2002	237,375	88,940	326,315
2003	236,757	62,206	298,963
2004	236,757	35,496	272,253
	<b>\$ 3,619,466</b>	<b>\$ 3,894,925</b>	<b>\$ 7,514,391</b>

Interest payable on the "matured coupons" for 2005 includes unpaid interest on the original bonds of \$437,456.

See also the following note – Prior Period Adjustment.

During 1989, the District made an interest payment for \$10,000. The payment was applied to the unpaid interest that was originally due December 1, 1989 leaving an unpaid balance of \$51,302.

The original authorized bonded debt limit of \$3,000,000 was raised in subsequent elections to \$6,000,000.

On February 3, 2004 the District received a loan from the Hamilton Creek Homeowners and four individuals in the amount of \$185,000. The loans bear an interest rate of 8.5% including an origination fee of .5%.

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
December 31, 2005**

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**3. Detailed notes concerning the funds (continued)**

**General long-term debt (continued)**

Annual debt service requirements to maturity for the loan are as follows:

	Interest	Principal	Total
2005	\$ 15,675	\$ --	\$ 15,675
2006	8,240	87,500	95,740
2007	8,239	97,500	105,739
	\$ 32,154	\$ 185,000	\$ 217,154

During the year ended December 31, 2005 the District paid no interest or principal on the loan. Interest expense in the amount of \$15,675 was accrued for the amount due in 2005.

**4. Other information**

**Risk management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters, for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years.

**TABOR Amendment**

In November 1992, Colorado voters approved Amendment 1 to the State Constitution, which is commonly known as the Taxpayer's Bill of Rights or the TABOR Amendment. The Amendment applies to all units of local government and limits taxes, spending, revenue, and multi-year debt (excepting bond refundings to lower interest rates and adding employees to pension plans). The amendment does not apply to units of local government that are defined as an "enterprise." The District does not qualify as an "enterprise" as property taxes are more than 10% of total revenue. The property tax levy recorded in the Debt Service fund relates to pre-TABOR debt that was incurred to retire the general obligation bonds.

The Amendment defined the District's year-end, December 31, 1992, as the initial base year for purposes of defining compliance with the Amendment. The Amendment defines inflation and local growth. Future years' revenue, relative to prior years' revenue, is only allowed to increase based upon the inflationary and local growth factors. The District must refund revenue received in excess of the limit to the voters, unless the voters approve retention of the excess revenue.

The amendment also requires the District to establish an "Emergency Reserve" which must be equal to 3% of current year's revenue. Conditions under which these reserves may be spent are severely limited. Under the terms of the Plan the District has not funded the "Reserve" except as the amount currently recorded in the fund equity of the General fund.



**4. Other information (continued)**

**TABOR Amendment (continued)**

The District believes that it complies with the provisions of TABOR, as it is currently understood. Many of the provisions may not become fully understood without judicial review.

**Prior Period Adjustment**

The accrual of interest on the 'matured interest coupons' was understated at December 31, 2004 by \$683,970. The amount of interest expense reported in the adjustment column of the current financial statements is \$406,732 which is attributable to the current year. Beginning fund balance (deficit) has been restated to (\$5,471,996).

**Litigation**

In 1996 the District proposed a settlement with the bondholders to refund the principal due on the bonds. The settlement offer was accepted by approximately 90% of the bondholders. Full acceptance (100%) was required. The District filed for a new bankruptcy to have the court approve the offer as some bondholders could not be located and over two thirds favored the offer, two thirds being the approval rate required by the bankruptcy guideline. A group of bondholders objected to the District's plan to file for bankruptcy claiming that the District was not currently bankrupt. The Bankruptcy Court agreed and the District was not allowed to file. The Federal Appellate Court held that as long as the District conformed to the "cash flow plan" the District could never be bankrupt and in addition potentially would never be required to pay the bondholders.

In 1998 the District filed for a declaratory judgment asking the State Court to rule if a corrective plan to remediate the fluoride problem in the water system was part of the maintenance "cash flow" language of the Plan. Certain bondholders asserted that any expenditures incurred to remediate the fluoride problem should be classified as capital improvements. The bondholders asserted that capital improvements were limited to the original \$260,000 as directed by the Bankruptcy Court, Section 1.5 of the Plan. The District asserted that the expenditures should be recorded as costs of operation and maintenance and were not subject to the \$260,000 limitation. The Court issued a ruling on June 22, 2000 in favor of the District.

On October 25, 2000, the District Court denied the bondholders request for a stay as to the June 22, 2000 court ruling. The Colorado Court of Appeals issued a ruling August 9, 2001 that returned to the Trial Court for additional consideration the question of whether the District's water supply was contaminated with fluoride at the time of the Bankruptcy Plan approval in February 1990. The Appellant Court also ordered that additional testimony be considered to determine the intent of the parties during the Bankruptcy proceedings as to whether interest would continue to accrue on unpaid interest after the payment of the principal on the bonds.

A three-day trial on the questions returned by the Court of Appeals to the District Court was held January 7-9<sup>th</sup>, 2003.

4. **Other information (continued)**

**Litigation (continued)**

As part of the original 1998 filing, the District had entered into an Order of Consent with the State of Colorado in December 1999 to correct the fluoride problem with the water within two years. The District completed construction of the repairs in March 2003. Partial use of the repaired system began in May 2003 with full utilization of a new water source in August 2003. In May 2003 the State of Colorado filed a motion with the District Court to have a \$10,000 fine imposed on the District for not meeting the deadline of the Order. In a hearing held on September 19, 2003 the District Court ruled that the State of Colorado did not follow statutory procedures in the filing of the motion and the request of the State was denied.

The District Court entered a ruling on June 1, 2005 from the trial held January 7-9<sup>th</sup>, 2003. The ruling of the Court was the water source of the District was not contaminated in 1990. The Court used the State of Colorado standards for water quality at the time of the bankruptcy as the determining factor. The Court also ruled that the interest on accrued interest continues to accrue after the payment of the Bond principal. However, the Federal Court ruling does not require the payment of the interest accrual.

In July 2005 the ruling of the District Court regarding the determination of the water contamination was appealed to the Colorado Court of Appeals by Colorado Bondshares. They have claimed that the trial judge was in error in not using a common dictionary definition of contamination as applied to the Hamilton Creek water in 1990, rather than the State standard in effect at that time. Oral arguments were heard November 14, 2006. The Court ruled on November 24, 2006 in favor of Hamilton Creek by indicating the trial judge was correct in his use of the State standard.

5. **Reconciliation of government-wide financial statements and fund financial statements**

The Governmental Funds Balance Sheet/Statement of Net Assets includes an adjustments column. The adjustments have four elements: 1) amounts reported as "internal balances" which have been eliminated; 2) capital assets used in government activities are not financial resources and, therefore are not reported in the funds; 3) long-term liabilities, including notes, bonds payable, and accrued interest payable not due and payable in the current period are not reported in the funds; 4) amounts reported as fund balance have been reclassified for inclusion in Net Assets.

The Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities includes an adjustments column: 1) governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense; 2) capital expenditures in the funds are not financial uses of the funds and are not reported in the funds; 3) interest expense that is not due and payable in the current period is not reported in the funds.

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Debt Service Fund - Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
For the year ended December 31, 2005**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenue:</b>			
Property taxes	\$ 275,688	\$ 275,627	\$ (61)
Specific ownership taxes	17,000	17,914	914
Development fees	5,000	5,000	-
Water tap fees	9,000	31,500	22,500
<b>Total revenue</b>	<b>306,688</b>	<b>330,041</b>	<b>23,353</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Administration	-	7,500	(7,500)
Legal and audit fees	-	14,895	(14,895)
<b>Debt service:</b>			
County Treasurer fees	13,784	13,827	(43)
<b>Total expenditures</b>	<b>13,784</b>	<b>36,222</b>	<b>(22,438)</b>
<b>Excess of revenue over expenditures</b>	<b>292,904</b>	<b>293,819</b>	<b>915</b>
<b>Other financing (uses):</b>			
Transfer - internal activities	(260,525)	(291,450)	(30,925)
<b>Total other financing (uses)</b>	<b>(260,525)</b>	<b>(291,450)</b>	<b>(30,925)</b>
<b>Excess (deficiency) of revenue over (under) expenditures and other financing (uses)</b>	<b>\$ 32,379</b>	<b>2,369</b>	<b>\$ (30,010)</b>
Fund balance (deficit) - beginning of year		(58,374)	
<b>Fund balance (deficit) - end of year</b>		<b>\$ (56,005)</b>	