

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2006

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, 2006, 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, 2006, 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.

Hiratsuka & Schmitt, LLP

Denver, Colorado
October 9, 2007

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**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2006**

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, 2006. 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 assets of the District exceeded its liabilities at the close of the most recent year by \$1,735,317. Of this amount, \$1,898,200 is 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 increased by \$39,785 due in part to the fact that the District was no longer accruing interest on bonds due to the apparent settlement of the lawsuit.

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 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 non – 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. 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 remaining fund as required by State Statute. The budgetary comparison statement is provided to demonstrate compliance with this budget. The debt service fund was closed in 2006.

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>2006</u>	<u>2005</u>
Current and other assets	\$ 393,585	\$ 391,003
Capital assets	<u>1,898,200</u>	<u>1,938,462</u>
Total assets	<u>2,291,785</u>	<u>2,329,465</u>
Long-term liabilities outstanding	-	7,699,191
Other liabilities	<u>556,468</u>	<u>454,133</u>
Total liabilities	<u>556,468</u>	<u>8,153,324</u>
Net assets:		
Invested in capital assets, net of related debt	1,898,200	-
Restricted for TABOR	11,024	3,400
Unrestricted (deficit)	<u>(173,907)</u>	<u>(5,827,259)</u>
Total net assets (deficit)	<u>\$ 1,735,317</u>	<u>\$ (5,823,859)</u>

Comparative Statements of Activities

	<u>2006</u>	<u>2005</u>
Revenue	\$ 367,454	\$ 380,876
Expenditures:		
Current	294,761	296,505
Debt service	<u>32,908</u>	<u>436,234</u>
Total expenditures	<u>327,669</u>	<u>732,739</u>
Change in net assets	39,785	(351,863)
Net assets – beginning – (deficit)	<u>1,695,532</u>	<u>(5,471,996)</u>
Net assets – ending – (deficit)	<u>\$ 1,735,317</u>	<u>\$ (5,823,859)</u>

A significant change occurred in 2006 as District legal counsel concluded that the District is no longer required to report the liability for interest and matured interest on the 1985 general obligation bonds as the principal on those bonds were repaid in 2004. The District stopped accruing interest on the bonds in 2005. The total interest liability in 2005 was reported as \$7,514,391, which was closed to net assets in 2006. The beginning net assets were changed to \$1,695,532 as the interest liability was removed from the District balance sheet.

FUTURE PLANS:

- Continue to encourage conservation of water through education and escalating water rates.
- Install electronic read water meters with internet access to allow quick identification of water leaks or excess usage.
- Work with the neighboring development Angler Mountain Ranch and the Town of Silverthorne to provide Silverthorne water for additional fire protection and as an emergency backup to the supply for the District.
- Continue forest management work including utilization of available grants, fire mitigation and seedling planting.
- 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:

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HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
General Fund - Balance Sheet/Statement of Net Assets
December 31, 2006

	General Fund	Adjustments (Note 5)	Statement of Net Assets
Assets:			
Cash and cash equivalents	\$ 4,578	\$ -	\$ 4,578
Investments	3,349	-	3,349
Accounts receivable:			
Customer	12,450	-	12,450
Taxes - current	8,906	-	8,906
Homeowners	73,708	-	73,708
Taxes - assessed	290,594	-	290,594
Capital assets, net of accumulated depreciation where applicable:			
Road system	-	971,366	971,366
Water system	-	926,834	926,834
Total assets	\$ 393,585	1,898,200	2,291,785
Liabilities:			
Accounts payable	50,074	-	50,074
Construction deposits	21,000	-	21,000
Deferred tax revenues	290,594	-	290,594
Accrued interest	14,800	-	14,800
Notes payable - operations	-	180,000	180,000
Total liabilities	376,468	180,000	556,468
Fund balance/Net assets (deficit)			
Fund balances:			
Reserved for:			
Tabor	11,024	(11,024)	-
Unreserved	6,093	(6,093)	-
Total fund balance	17,117	(17,117)	-
Total liabilities and fund balance	\$ 393,585		
Net assets:			
Invested in capital assets, net of related debt		1,898,200	1,898,200
Restricted for:			
TABOR		11,024	11,024
Unrestricted (deficit)		(173,907)	(173,907)
Total net assets		\$ 1,735,317	\$ 1,735,317

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, 2006

	General Fund	Debt Service Fund	Total	Adjustments (Note 5)	Statement of Activities
Revenues:					
Property taxes	\$ 288,537	\$ -	\$ 288,537	\$ -	\$ 288,537
Specific ownership taxes	19,335	-	19,335	-	19,335
Interest	929	-	929	-	929
User fees	53,153	-	53,153	-	53,153
Water tap fees	5,500	-	5,500	-	5,500
Total revenues	367,454	-	367,454	-	367,454
Expenditures:					
Current:					
Administration	34,500	-	34,500	-	34,500
Legal and audit fees	15,332	-	15,332	-	15,332
Director's expense	800	-	800	-	800
Insurance	1,759	-	1,759	-	1,759
Road maintenance	70,713	-	70,713	-	70,713
Water system maintenance	87,803	-	87,803	-	87,803
Forest maintenance	47,729	-	47,729	-	47,729
Utility operations	4,208	-	4,208	-	4,208
Septic maintenance	11,450	-	11,450	-	11,450
Office supplies and postage	1,818	-	1,818	-	1,818
Membership dues	751	-	751	-	751
Telephone	1,017	-	1,017	-	1,017
Miscellaneous	595	-	595	-	595
Discount	25	-	25	-	25
Depreciation	-	-	-	16,261	16,261
Debt service:					
Interest	18,448	-	18,448	-	18,448
County Treasurer fees	14,460	-	14,460	-	14,460
Total expenditures	311,408	-	311,408	16,261	327,669
Excess of revenues over expenditures	56,046	-	56,046	(56,046)	-
Change in net assets				39,785	39,785
Residual equity transfer	(56,005)	56,005	-	-	-
Fund balance/net (deficit) - beginning of year restated	17,076	(56,005)	(38,929)	1,697,388	1,695,532
Fund balance/net assets - end of year	\$ 17,117	\$ -	\$ 17,117	\$ 1,681,127	\$ 1,735,317

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 (Non - US GAAP) Basis and Actual
For the year ended December 31, 2006**

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property taxes	\$ 288,464	\$ 288,537	\$ 73
Specific ownership taxes	17,500	19,335	1,835
Development fees	5,000	-	(5,000)
Interest	1,000	929	(71)
User fees	48,500	53,153	4,653
Water tap fees	4,500	5,500	1,000
Total revenues	364,964	367,454	2,490
Expenditures:			
Current:			
Administration	43,000	34,500	8,500
Legal and audit fees	53,700	15,332	38,368
Director's expense	1,500	800	700
Insurance	2,100	1,759	341
Road maintenance	50,000	70,713	(20,713)
Water system maintenance	60,000	87,803	(27,803)
Forest maintenance	45,000	47,729	(2,729)
Utility operations	3,750	4,208	(458)
Septic maintenance	13,000	11,450	1,550
Office supplies and postage	2,250	1,818	432
Membership dues	1,150	751	399
Telephone	1,000	1,017	(17)
Miscellaneous	500	595	(95)
Discount	-	25	(25)
Capital expenditures	10,000	-	10,000
Debt service:			
Interest	60,000	18,448	41,552
County treasurer's fees	14,423	14,460	(37)
Total expenditures	361,373	311,408	49,965
Excess of revenue over expenditures	<u>\$ 3,591</u>	56,046	<u>\$ 52,455</u>
Fund balance - beginning of year		17,076	
Residual equity transfer		<u>(56,005)</u>	
Fund balance - end of year		<u>\$ 17,117</u>	

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

HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Notes to Financial Statements
December 31, 2006

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 Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Basis of presentation

The accompanying financial statements are presented in accordance with 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, expenditures, and changes in fund balances/statement of activities) report information on the *governmental-type activities* of the District, which rely to a significant extent on taxes 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 resources 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.

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 financial statement presentation (continued)

Fund accounting

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

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, due to the conclusion of the lawsuit the fund was closed in 2006 by a residual equity transfer of net assets to the General fund.

Assets, liabilities and net assets

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, 2006 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.

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. Summit 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.

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

Assets, liabilities and net assets (continued)

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.

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, 2006, 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.

HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Notes to Financial Statements
December 31, 2006

3. Detailed notes concerning the funds (continued)

Deposits and investments – Custodial Credit Risk (continued)

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, 2006 District investments in the pool, carrying and fair value, were \$2,042. The Trust is rated AAAM by Standard & Poor's with an average maturity of 35 days.

As of December 31, 2006, the District had a remaining balance with the bond Trustee. The bonds were repaid in 2004. The remaining balance at December 31, 2006 is \$1,308, which is invested in the Federated Treasury Obligation Fund, which is rated AAAM by Standard & Poor's.

Capital assets

The following is a summary of the District's capital assets at December 31, 2006:

Road system	\$	971,366
Water System		1,219,637
Less: accumulated depreciation – water system		(292,803)
Total	\$	1,898,200

During the year, the District had no additions to or deletions from capital assets.

Long-term debt

General Obligation Bonds

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.

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 principal on the new bonds was paid in full on November 15, 2004 from escrowed funds.

3. Detailed notes concerning the funds (continued)

Long-term debt (continued)

General Obligation Bonds (continued)

The District was required to 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.

As of December 31, 2005, the District no longer accrued interest on the bonds either on the original issue or matured coupon interest due on the "new bonds" as the principal on the bonds has been repaid in full. As of December 31, 2006, the District no longer recognized the obligation to repay the original or matured interest on the bonds, see also Note 4 Litigation.

Homeowner's loans

On February 3, 2004, the District received a loan from the Hamilton Creek Homeowners Association and four individuals for \$180,000. The loans bear an interest rate of 8.5% including an origination fee of .5%.

During the year ended December 31, 2006, the District repaid two homeowners \$12,500, and received an additional loan from a homeowner for \$25,000. The principal balance as of December 31, 2006, remains the same as the prior year.

The District paid interest of \$18,448 to the homeowners of which \$15,675 was applied to interest due as of the year ended December 31, 2005. The District accrued interest of \$14,800 which remained payable for the year ended December 31, 2006.

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 relates to pre-TABOR debt that was incurred to retire the original general obligation bonds.

4. Other information (continued)

TABOR (continued)

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.

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.

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.

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Notes to Financial Statements
December 31, 2006**

4. Other information (continued)

Litigation (continued)

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

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 7-9th, 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. As no appeal has been filed, the District believes this long legal process has reached a conclusion.

In 2005, upon the advice to legal counsel the District ceased to accrue bond interest on the current and matured interest. Again, upon advice of legal counsel in 2006 the District ceased to recognize the current and matured interest liability, which resulted in a restatement of net assets as follows:

Total net assets (deficit) December 31, 2005	\$ (5,818,859)
Reclassify the interest liability to net assets	<u>7,514,391</u>
Restated total net assets December 31, 2005	<u>\$ 1,695,532</u>

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 three elements: 1) capital assets used in government activities are not financial resources and, therefore are not reported in the funds; 2) long-term liabilities, including operating notes are not due and payable in the current period thus are not reported in the funds; 3) amounts reported as fund balance have been reclassified for inclusion in Net Assets.

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

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.