

HAMILTON CREEK METROPOLITAN DISTRICT

2007 Debt Service Fund Budget

	2005 Actual	2006 Budget	2006 9 mo YTD	2006 3 mo Estimate	2006 Projected	2007 Budget
BEGINNING FUND BALANCE	(47,260)	(63,290)	(63,290)		(63,290)	(977)
REVENUES						
Property tax	275,627	288,464	285,985	2,552	288,537	290,594
Specific ownership tax	17,914	17,500	14,616	4,450	19,066	17,000
Development fees	5,000	5,000	0	0	0	0
Water tap fees	31,500	4,500	0	5,500	5,500	5,500
Water project loan / grant	0	0	0	0	0	0
TOTAL REVENUES	330,041	315,464	300,601	12,502	313,103	313,094
EXPENDITURES						
Bond interest	0	0	0	0	0	0
Bond principal	0	0	0	0	0	0
Treasurer fees	13,828	14,423	14,325	135	14,460	14,530
Bond administration	7,500	10,000	669	1,000	1,669	0
Bond attorney	14,895	50,000	8,915	7,500	16,415	0
Bond miscellaneous	0	0	0	0	0	0
Transfer to general fund	309,848	237,450	195,671	22,575	218,246	294,450
SUBTOTAL	346,071	311,873	219,580	31,210	250,790	308,980
INCREASE (DECREASE) RESERVES	(16,030)	3,591			62,313	4,114
INCREASE (DECREASE) EMERGENCY	0	0			0	0
ACCUMULATED RESERVES	(66,690)	(63,099)			(4,377)	(263)
ACCUMULATED EMERGENCY	3,400	3,400			0	0
ENDING FUND BALANCE	(63,290)	(59,699)			(977)	3,137

This document is a true and accurate copy of the budget for the Hamilton Creek Metropolitan District adopted for 2007 by the Board of Directors on December 8, 2006.

HAMILTON CREEK METROPOLITAN DISTRICT

SEAL

Kolbjorn Tenfjord, President

HAMILTON CREEK METROPOLITAN DISTRICT

2007 General Fund Budget

	2005 Actual	2006 Budget	2006 9 mo YTD	2006 3 mo Estimate	2006 Projected	2007 Budget
BEGINNING FUND BALANCE	0	0			0	0
REVENUES						
User fees	48,733	48,500	38,452	14,500	52,952	50,000
Interest	2,060	1,000	689	250	939	1,000
Miscellaneous	0	0	0	0	0	0
Transfer from debt fund	309,848	237,450	195,671	22,575	218,246	294,450
TOTAL REVENUES	360,641	286,950	234,812	37,325	272,137	345,450
EXPENDITURES						
Road maintenance	55,804	50,000	51,803	8,500	60,303	50,000
Water system maintenance	81,667	60,000	53,660	15,000	68,660	60,000
Forest maintenance	47,238	45,000	40,495	0	40,495	50,000
Utilities	3,693	3,750	3,352	950	4,302	4,500
Septic system cleaning	11,395	13,000	10,365	0	10,365	15,000
Administration	33,000	33,000	24,750	8,250	33,000	33,000
Audit	3,100	3,200	0	3,200	3,200	4,000
Director fees	1,425	1,500	375	375	750	1,500
Insurance	1,825	2,100	1,759	0	1,759	2,000
Legal	84	500	601	125	726	500
Office supplies and postage	1,603	2,250	1,582	550	2,132	2,250
Membership dues	799	1,150	751	0	751	1,000
Telephone	838	1,000	637	250	887	1,000
Miscellaneous	300	500	359	125	484	500
Loan repayment / interest	0	60,000	44,323	0	44,323	95,200
Capital - road	0	0	0	0	0	0
Capital - water system	117,870	0	0	0	0	0
Capital - other	0	10,000	0	0	0	25,000
TOTAL EXPENDITURES	360,641	286,950	234,812	37,325	272,137	345,450
NET INCOME	0	0	0	0	0	0
ENDING FUND BALANCE	0	0			0	0

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HAMILTON CREEK METROPOLITAN DISTRICT

SEAL

Kolbjorn Tenfjord, Presiden

HAMILTON CREEK METROPOLITAN DISTRICT

2007 Budget Message

The Hamilton Creek Metropolitan District operates under a court approved bankruptcy plan agreed to by all bondholders in January 1990 and effective on February 1, 1990. Under the Plan, all revenues collected from ad valorem taxes, water taps, user fees, development fees and interest income go toward the payment of interest on the "New Bonds" after the District has first paid its operating expenses, bond principal and contribution to capital reserves. The District is obligated to make interest payments of 11.25% to the bondholders on June 1 and December 1 of each year only to the extent Debt Service Funds are available. The principal on the Bonds was paid off December 1, 2005. There are no interest payment dates after December 1, 2005.

The District takes the position that the Tabor Amendment is a retrospective law and is not retroactive on the District's Amended Plan for Adjustment of Debt. It is the District's understanding that the spirit and intent of the Tabor Amendment is to prevent governmental entities from unnecessarily raising taxes and creating excessive and unwarranted burdens upon taxpayers. The District shares this philosophy. The District wishes to continue to provide service to its taxpayers in the most efficient and cost effective way possible without placing an unnecessary burden on them. The only viable means of promoting the health and welfare of the District is to proceed under the terms of the Plan.

Services to be delivered. The Hamilton Creek Metropolitan District is organized as a special district. The 2007 budget includes funding to provide water service, septic system pumping, forest management, road maintenance and snow plowing.

System of accounting. The District utilizes a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual, i.e., both measurable and available. Available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, if measurable.

Fund accounting. The District uses Fund Accounting to segregate monies based on designated uses. The funds are the General Fund for operations, the Debt Fund for bond principal and interest payments, and the Capital Fund for capital improvements as authorized by the bankruptcy ruling. Primary revenues for the General Fund and Capital Fund are transferred as needed to pay operation costs from the Debt Fund.

Presentation of the budget consolidates the General and Capital Funds to a single page to provide a better overall view of the District operations.

Property taxes. The mill levy for 2007 is 40 mills, the amount set by the 1990 bankruptcy ruling. The District is unsure at this time regarding how long the mill levy imposed by the ruling will apply as the principal of the bonds has been paid off and the documentation (bonds) returned by the holders.

The assessed valuation of the District is \$7,264,860. Based on the mill levy this will realize \$290,594 in tax revenue. The Summit County Treasurer collection fee of 5% will be \$14,530.

Development fees. A fee of \$5,000 is collected on the original sale of property from the developer. A \$5,000 fee is also collected on any property on which an assessor unit (as defined and/or approved by Summit County) is built. There currently is one remaining lot to be sold by the developer.

Water tap fees. Tap fees are collected prior to authorizing a building permit. Tap fees for 2007 are \$6,000. The District has 93 improved lots with 3 residences under construction. There currently are 26 unimproved lots. The District cannot assume all of these properties will be built on as owners may abandon lot lines (subject to approval by Summit County Government), or not build on lots to provide more open space around their property. There was one water tap fee sold in 2006.

Bond interest and principal. The District has no outstanding bond principal after the principal payment on December 1, 2004. The principal payment was funded by US Treasury Strips purchased in 1985 from proceeds from the original bond. The 1990 bankruptcy ruling allows the District to first pay operating expenses, bond principal and reserve a capital fund amount prior to any interest payment. The District is allowed to partially pay the interest due in any year to the extent that funds are available after the above allocations. Interest not paid to the bondholders is referred to as accrued interest and is paid prior to any current interest payments. District worksheets reflect, as of December 1, 2006 the amount of accrued interest due bondholders is \$11,326,253.30. The District presented bondholders with a repurchase plan in 1996 which was accepted by 99 out of 110 bondholders. The District filed in Federal Bankruptcy Court to have the repurchase plan approved as a settlement for all bondholders. The Bankruptcy Court ruled on September 19, 1996 that the District was not able to utilize a Chapter 9 filing for this approval. The ruling of the Bankruptcy Court was appealed to Federal District Court that did not reverse the Bankruptcy Court ruling. The 10th Circuit Court of Appeals issued an opinion on May 15, 1998 that held the District would not be able to utilize the Bankruptcy Court as it was not in default. As the 1990 bankruptcy ruling allows the District to operate on a "cash flow" basis, the 10th Circuit held the District would never be in default as long as it operated in accordance with the plan. Language in the opinion stated the debt was perpetually escapable from contingencies in the Plan. The 10th Circuit found the District to date had operated in accordance with the plan.

In 1997 the District was issued an enforcement order by the State of Colorado Health Department to bring fluoride in the water of the District below the 4.0 mg/l maximum contaminant action level. In 1998 the District filed a legal action in Colorado District Court for a declaratory ruling addressing if funds used to meet the statutory regulations were an operating expense and available prior to the payment of interest to Bondholders. In November 1999 the District, in a mediation hearing required by the Court, offered a settlement to the Bondholders of either \$250,000 per year for five years or one million dollars in 2000 as a full payment of interest due. The principal scheduled for payment in 2005 would have been paid as scheduled. The settlement would have removed the District from bankruptcy and the District would then have

been responsible for the cost of the water repair. The Bondholders, represented by the largest bondholder Colorado Bondshares at the hearing, rejected the proposal. The District made a settlement with the State of Colorado agreeing to meet the statutory requirements for fluoride within 18 months of a decision in this action. A two day trial was held February 22nd and 23rd, 2000. The Court ruled, on June 22, 2000, that the cost of repairing the water system to meet statutory regulations was an operating expense payable prior to interest to the Bondholders per the Plan. The ruling of the Colorado District Court was appealed to the Colorado Court of Appeals. The Colorado Court of Appeals, on August 9, 2001, affirmed in part, reversed in part and remanded the case back to the District Court. The Appeals Court transmitted this ruling on October 15, 2001 to the District Court. The District presented a \$250,000 interest settlement offer at an August 6, 2005 mitigation meeting that was a required element of the District Court trial. The offer was rejected and Colorado Bondshares made no settlement offer. A three day trial was held January 7-9th, 2003 to address if the water source of the District was contaminated with fluoride when the Plan was confirmed in 1990 and what the intent of the parties to the Bankruptcy was with regards to continuation of the interest after payment of the principal. The State of Colorado filed a motion in May 2003 to fine the District \$10,000 for not completing the water system repairs by the agreed upon date. In a hearing held in September 2003 the District Court rejected the motion of the State. The Trial Court ruled on the 2003 court case on June 1, 2005. The Court held the repairs to the District water supply were maintenance as the water supply was not contaminated at the point of the Bankruptcy Plan using the State definition of water contamination at that time. The Court ruled interest continued to accrue on the accrued interest not paid. Colorado Bondshares appealed the ruling on the water repairs to the Colorado Court of Appeals arguing that the Trial Court used the wrong definition of contamination. Following oral arguments on November 14, 2006, the Appeals Court ruled on November 24, 2006 that the Trial Courts determination of contamination was corrected as was its finding in favor of Hamilton Creek.

The District completed the structural construction of the water repairs in March 2003. Mechanical construction was completed in May 2003 and the first water from the new source was entered into the system. The District began exclusive use of the new water source in August 2003. The State of Colorado approved construction of the water repairs in February 2003.

The Plan does not have any restriction to the amount contributed to the capital fund beginning in 2005. Since 1995 the District has made offers and settlement proposals to Colorado Bondshares, the litigating bondholder, for reasonable financial settlements to the benefit of all parties that would terminate the excessive legal expenses on both sides. Based on the rejection of all offers by Colorado Bondshares, the District does not believe they were interested in a financial settlement to the litigation.

User fees. District customers in 2007 will be billed a flat rate of \$125 per quarter which includes water usage up to 15,000 gallons per quarter and the pumping of the individual septic system on a regularly scheduled basis. Water usage in excess of the 15,000 gallons, but below 20,000 gallons is billed at \$5 per 1,000 gallons. Water usage in excess of 20,000 gallons per quarter is billed at \$10 per 1,000 gallons. The District will provide service to 93 homes that is projected to realize \$50,000 in user fees for 2007.

Interest. All District funds are held in interest bearing accounts. Funds are transferred to a non-interest-bearing checking account as payment checks are issued.

Road maintenance. The District contracts for snow removal on the roads and paved driveways within the District. The contract for the upcoming winter season is based on an hourly rate of \$110 per hour. A minimum of \$750 per month is payable from November through April 15th. There is an additional fee for any sand used on the roads. In 2005 the District began annual crack filling of the roadways that is expected to extend the life of the roadway prior to resurfacing by 10 or more years.. The basis of the road maintenance budget is:

Snow removal	\$ 25,000
Road repairs	<u>25,000</u>
 TOTAL	 \$ 50,000

Water maintenance. The District contracts operation of the water system to a licensed water operator. The contract includes routine water testing as required by the State of Colorado and overall supervision of the operation of the District's wells, water tank and distribution system. Specialized water testing, semi-annual operations maintenance, line inspections and maintenance requests from the District are billed separately. The District has used surface water from Hamilton Creek as the exclusive source of water since August 2003. Allocation of the water maintenance budget is:

Operations contract	\$ 15,000
Routine maintenance & repair labor	23,000
Chemicals, testing and supplies	5,000
System repairs	12,000
Permanent plant design	5,000
 TOTAL	 60,000

Forest Maintenance. Substantial portions of the area served by the Metropolitan District are forested. The values of property within the District would be strongly affected by loss of forested areas. The District charter directs forest management as part of the activities to be provided. The District in 1998 had an investigation of the forested areas by a forest management company. They indicated the forest presently was in good condition and there was currently no evidence of pine beetle infestation. The report recommended the District follow a long-term forest management program including selective thinning, spruce tree seedling planting and selective chemical treatment of diseased trees. The District uses the forest management company to survey the area at least twice per year to identify diseased trees. Approximately 440 trees were removed in 2006 and over 1,000 trees received protective spraying. Almost 1,300 trees have been marked as infected by the pine beetle in the fall of 2006. The 2007 budget reflects continuing the collection of dead trees from the forested areas, removal of diseased trees, spraying of healthy trees, and continued work on the long-term forest maintenance plan.

Utilities. The utility billing is for the cost of electricity to run the well pump and heat the pump house. The cost will fluctuate based on the water volume used by the District and the season.

Septic pumping. The District is following a schedule of pumping individual septic systems on a three-year cycle. It is anticipated this schedule may be modified in the future to reflect the year round occupancy of some District residents. A total of 22 septic systems were pumped in 2006. There are 33 systems scheduled for pumping in 2007.

Administration. Services provided by the administrator include billing, financial statements, financial management, budget preparation and the general supervision of District operations.

Audit. The CPA firm of Hiratsuka & Schmitt, L.L.P. prepared the 2005 audit for the District. They are contracted for the 2006 audit. Hiratsuka & Schmitt specializes in governmental audits and are considered experts in government accounting.

Director fees. The District compensates directors elected before May 2006 \$75 for each board meeting attended and directors elected in May 2006 and after \$100 for each board meeting attended. There are five directors and quarterly meetings.

Insurance. The District is a member of the Special District insurance pool that provides competitive rates on property, content, liability and public officer insurance.

Office supplies and postage. Costs are for billing, correspondence postage, Consumer Confidence Report preparation, web site maintenance and office supplies. The District web site has public information available including budgets, board minutes and the annual audit.

Membership dues. The District belongs to the Special Districts Association of Colorado. The Association provides newsletters, seminars and lobbying efforts on behalf of special districts. Also, the insurance for the District is through a liability pool organized by the Special District Association. Membership cost is based on the District budget. The District also belongs to the Rural Water Association. This Association provides specialized information for small public water suppliers, training seminars and an annual trade show attended by representatives of the District.

Miscellaneous expenses. Bank fees and other minor expenses not allocated to other areas.

Capital fund. The District has allocated \$25,000 from the capital fund for the construction of a mail delivery facility. The facility would be located on Town of Silverthorne property and is subject to an agreement with the Town prior to any design or construction. While not budgeted for 2007, the District is planning on a connection to the Town of Silverthorne water for fire protection and emergency water when the proposed Anglers Ranch development south of Hamilton Creek is constructed. The District would also like to access the sewer line in the development for use by a future water treatment plant.

There are no restrictions on contributions to the capital fund in 2007 per the Bankruptcy Plan.

Bond attorney and administration fees. The District legal fees in 2006 for the Colorado Court of Appeals action were less than anticipated. The District does not expect an appeal of this ruling in the favor of Hamilton Creek. No legal fees were budgeted for 2007.

HAMILTON CREEK METROPOLITAN DISTRICT
RESOLUTION TO ADOPT BUDGET AND APPROPRIATE REVENUES

A RESOLUTION SUMMARIZING EXPENDITURES AND REVENUES FOR EACH FUND AND ADOPTING A BUDGET FOR THE HAMILTON CREEK METROPOLITAN DISTRICT, COLORADO, SETTING THE MILL LEVY AND APPROPRIATING SUMS OF MONEY FOR THE 2007 CALENDAR YEAR.

WHEREAS, the Board of Directors of the Hamilton Creek Metropolitan District has appointed Robert D. Polich, District Administrator, to prepare and submit a proposed budget to the Board of Directors at the proper time; and;

WHEREAS, Mr. Polich has submitted a proposed budget to this Board on December 8, 2006, for its consideration, and;

WHEREAS, the 2006 valuation for assessment for the Hamilton Creek Metropolitan District as certified by the County Assessor is \$7,264,860 and;

WHEREAS, upon due and proper notice, published in accordance with the law, the proposed budget was open for inspection by the public at a public place, a public hearing was held on December 8, 2006, and interested taxpayers were given the opportunity to file or register any objections to the proposed budget.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE HAMILTON CREEK METROPOLITAN DISTRICT, COLORADO:

Section 1. That the budget as submitted and attached as Exhibit A is approved and adopted as the budget of the Hamilton Creek Metropolitan District for 2007.

Section 2. That the budget approved and adopted shall be signed by the President of the District and made a part of the public records of the District.

Section 3. That for the purpose of meeting all bonds and interest of the Hamilton Creek Metropolitan District during the 2007 budget year, there is levied a tax of 40.000 mills upon each dollar of the total valuation for assessment of all taxable property within the District.

Section 4. That the President is hereby authorized and directed to immediately certify to the County Commissioners of Summit County, Colorado, the above mill levies for the Hamilton Creek Metropolitan District.

Section 5. That the sums set forth in the budget are appropriated from the revenue of each fund, to each fund, for purposes stated.

Adopted December 8, 2006.

Kolbjorn Tenfjord, President

Attest:

HAMILTON CREEK METROPOLITAN DISTRICT

CERTIFICATION OF TAX LEVIES

To: County Commissioners of Summit County, Colorado

This is to certify that the tax levy to be assessed by you upon all property within the limits of the Hamilton Creek Metropolitan District, based on a total assessed valuation of \$7,264,860 for the year 2006, as determined and fixed by the Board of Directors on December 8, 2006 is:

Hamilton Creek Metropolitan District General Obligation Bond Series 1985, 11.25%; Addendum Additional Provisions by the United States Bankruptcy Court; December 1, 2004.

Debt Service Fund	40.000 mills	\$ 290,594
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Pursuant to the Order of the United States Bankruptcy Court approving the District's Amended Plan for Adjustment of Debts, all ad valorem tax revenues, as well as any other sources of revenues, including developer's fees, users' fees and tap fees are to be deposited into the District's Debt Service or Capital Fund for the purposes of paying the new bond principal and interest. The District is allowed to transfer enough money from this fund to the General Operating Fund for the purpose of meeting operating expenses. The Order also sets the District's mill levy at 40.000 mills for 2007.

You are hereby authorized and directed to extend this levy upon your tax list.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Hamilton Creek Metropolitan District, this 8th day of December 2006.

HAMILTON CREEK METROPOLITAN DISTRICT

SEAL

Kolbjorn Tenfjord, President