

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2012

HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO

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YANARI WATSON MCGAUGHEY P.C.

DALE M. YANARI (1947-2004) ♦ RANDY S. WATSON ♦ G. LANCE MCGAUGHEY ♦ DON W. GRUENLER
FINANCIAL CONSULTANTS/CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Hamilton Creek Metropolitan District
Silverthorne, Colorado

Report on the Financial Statements

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Report on Other Legal and Regulatory Requirements

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through iii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Yvonne Watson Mc Donough P.C.

October 2, 2013

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012**

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, 2012. 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 and deferred inflows of resources at the close of the most recent year by \$1,397,198. Of this amount, \$1,800,633 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 position decreased by \$534,024 as District expenditures exceeded revenues.

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 US GAAP (Generally Accepted Accounting Principles 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 position presents information on all of the District's assets, liabilities, and deferred inflows of resources, with the difference being reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent year. All changes in net position 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 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 single fund as required by State Statute. The budgetary comparison statement is 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 Position

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 568,347	\$ 457,542
Capital assets	1,800,633	1,816,593
Total assets	<u>2,368,980</u>	<u>2,274,135</u>
Other liabilities	652,499	343,214
Deferred Inflows of resources	319,283	
Total liabilities and deferred Inflows of resources	<u>971,782</u>	<u>343,214</u>
Net position:		
Invested in capital assets	1,800,633	1,816,593
Restricted for TABOR	13,892	13,892
Unrestricted	(417,327)	100,436
Total net position	<u>\$ 1,397,198</u>	<u>\$ 1,930,921</u>

Comparative Statements of Activities

	<u>2012</u>	<u>2011</u>
Revenue	\$ 395,304	\$ 453,906
Expenditures:		
Current	929,328	379,676
Total expenditures	<u>929,328</u>	<u>379,676</u>
Change in net position	(534,024)	74,230
Net position – beginning - restated	1,931,222	1,856,691
Net position – ending	<u>\$ 1,397,198</u>	<u>\$ 1,930,921</u>

FUTURE PLANS:

The Hamilton Creek Metropolitan District was in the process of construction of a new water treatment facility as of the close of 2012. The new facility started producing water in March 2013. The cost of the facility was paid for from District revenues and \$550,000 in homeowner loans. The loans are to be repaid over six years beginning in 2013. The new facility will address current and expected water treatment requirements and stabilize the cost of water operations. The District is working with the Town of Silverthorne to have an emergency water connection with the Town supply. Conservation of water in the District is encouraged through the use of electronic meters and an escalating water usage rate structure. The District is developing long-term plans to improve fire flows in the District and add fire hydrants. The roadways in the District are considered to be in good condition. The District will continue roadway maintenance including crack filling and patching to defer major roadway improvements. Roadway improvements following the retirement of the homeowner loans for the water plant are expected to focus on replacing problem sections of the roadway as a better value than resurfacing of all roads. Forest management efforts have been successful in improving the condition of the forest and the effects of the pine beetle outbreak. The budget for future forest management is expected to continue to be lower than in the past.

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 Position
December 31, 2012

	General Fund	Adjustments (Note 5)	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 161,220	\$ -	\$ 161,220
Investments	2,204	-	2,204
Accounts receivable:			
Customer	16,693	-	16,693
Taxes - current	929	-	929
Homeowners - future construction	68,018	-	68,018
Taxes - assessed	319,283	-	319,283
Capital assets, net of accumulated depreciation where applicable:			
Road system	-	971,366	971,366
Water system	-	829,267	829,267
Total assets	568,347	1,800,633	2,368,980
Liabilities:			
Accounts payable	87,374	-	87,374
Interest payable	-	15,125	15,125
Noncurrent Liabilities			
Due within one year	-	79,848	79,848
Due in more than one year	-	470,152	470,152
Total liabilities	87,374	565,125	652,499
Deferred Inflows of Resources:			
Deferred tax revenues	319,283	-	319,283
Total deferred inflows of resources	319,283	-	319,283
Fund balance/Net position			
Fund balances:			
Reserved for:			
Tabor	13,892	(13,892)	-
Unassigned	147,798	(147,798)	-
Total fund balance	161,690	(161,690)	-
Total liabilities, deferred inflows of resources and fund balance	\$ 568,347		
Net position:			
Invested in capital assets		1,800,633	1,800,633
Restricted for:			
TABOR		13,892	13,892
Unrestricted (deficit)		(417,327)	(417,327)
Total net position		\$ 1,397,198	\$ 1,397,198

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/Statement of Activities
For the year ended December 31, 2012

	General Fund	Adjustments (Note 5)	Statement of Activities
Revenues:			
Property taxes	\$ 318,404	\$ -	\$ 318,404
Specific ownership taxes	13,018	-	13,018
Interest	1,037	-	1,037
User fees	62,845	-	62,845
Total revenues	395,304	-	395,304
Expenditures:			
Current:			
Operating expense:			
Road maintenance	11,270	-	11,270
Water system maintenance	75,654	-	75,654
Forest maintenance	14,980	-	14,980
Snow Removal	22,775	-	22,775
Utilities	5,063	-	5,063
Septic maintenance	9,528	-	9,528
Expensed capital items	689,612		689,612
Depreciation	-	16,261	16,261
Administration expense:			
Administration	36,000	-	36,000
Audit fees	6,500	-	6,500
Director's expense	1,900	-	1,900
Insurance	3,268	-	3,268
Legal	1,282	-	1,282
Office supplies and postage	1,473	-	1,473
Membership dues	783	-	783
Telephone	1,596	-	1,596
Miscellaneous	306	-	306
County treasurer's fees	15,952	-	15,952
Interest	-	15,125	15,125
Total expenditures	897,942	31,386	929,328
Excess of revenue (under) expenditures	(502,638)	(31,386)	(534,024)
Other financing sources (uses):			
Homeowners Loan	550,000	(550,000)	-
Total other financing sources (uses)	550,000	(550,000)	-
Change in fund balance/net position	47,362	(581,386)	(534,024)
Fund balance/net position- beginning of year - restated	114,328	1,816,894	1,931,222
Fund balance/net position - end of year	\$ 161,690	\$ 1,235,508	\$ 1,397,198

The accompanying notes are an integral part of this statement

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
General Fund - Statement of Revenues, Expenditures and
Changes in Fund Balance - Budgetary Basis and Actual
For the year ended December 31, 2012**

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property taxes	\$ 318,405	\$ 318,404	\$ (1)
Specific ownership taxes	14,000	13,018	(982)
Interest	500	1,037	537
User fees	63,000	62,845	(155)
Total revenues	395,905	395,304	(601)
Expenditures:			
Current:			
Operating expense:			
Road maintenance	55,000	11,270	43,730
Water system maintenance	75,000	75,654	(654)
Forest maintenance	25,000	14,980	10,020
Snow Removal	-	22,775	(22,775)
Utilities	5,000	5,063	(63)
Septic maintenance	15,000	9,528	5,472
Expensed capital items	650,000	689,612	(39,612)
Administration expense:			
Administration	36,000	36,000	-
Audit fees	6,500	6,500	-
Director's expense	2,000	1,900	100
Insurance	3,000	3,268	(268)
Legal	1,000	1,282	(282)
Office supplies and postage	2,250	1,473	777
Membership dues	1,000	783	217
Telephone	2,400	1,596	804
Miscellaneous	500	306	194
County treasurer's fees	15,920	15,952	(32)
Total expenditures	895,570	897,942	(2,372)
Excess of revenue over (under) expenditures	(499,665)	(502,638)	(2,973)
Other financing sources:			
Homeowners loans	500,000	550,000	50,000
Total other financing sources (uses)	500,000	550,000	50,000
Change in fund balance/net position	\$ 335	47,362	\$ 47,027
Fund balance - beginning of year		114,328	
Fund balance - end of year		\$ 161,690	

The accompanying notes are an integral of this financial statement.

**HAMILTON CREEK METROPOLITAN DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

1. Summary of significant accounting policies

The accounting policies of the Hamilton Creek Metropolitan District (the District), Silverthorne, Colorado 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 District 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 balance sheet/statement of net position 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.

Fund accounting

The District has one governmental fund, which accounts for the financial resources of the District.

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

Fund accounting (continued)

Governmental funds include the following fund type:

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.

Assets, liabilities, deferred inflows of resources, and net position

Fair value of financial instruments

The District's financial instruments include cash and cash equivalents, investments, accounts receivable, accounts and notes payable. Due to the short maturity of these instruments, the District estimates that the fair value of all financial instruments at December 31, 2012 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 a lien 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.

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 is not being depreciated.

Homeowners – future construction

The District has extended service lines into unimproved portions of the District lacking current homeowners, the currently recorded expenditures of \$68,017 will be repaid when homes are constructed and as the lots are sold.

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

Assets, liabilities, deferred inflows of resources, and net position (continued)

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, deferred revenue, is reported on the government-wide statement of net position and on the governmental funds balance sheet. The District funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The District adopted GASB 63 and GASB 65 as of December 31, 2012.

Fund balance

Beginning with fiscal year ending December 31, 2011, the District implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$13,892 of the General Fund balance has been restricted in compliance with this requirement.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net position represents the difference between assets less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows: 1) Net investment in capital assets; 2) Restricted net position; and 3) Unrestricted net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District will use the most restricted net position first.

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.

As of the year ended December 31, 2012 the District expenditures exceed budget by \$2,372. The Bankruptcy court ruling precludes the District from capitalizing certain costs incurred in relationship to improvements to the District pumping station. The over expenditures were 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, 2012, all of the District's deposits were insured by the Federal Deposit Insurance Corporation and/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

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, 2012 District investments in the pool, carrying and fair value, were \$2,204. The Trust is rated AAAM by Standard & Poor's with an average maturity of 35 days.

**HAMILTON CREEK METROPOLITAN DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012**

3. Detailed notes concerning the funds (continued)

Capital assets

The following is a summary of the District's capital assets at December 31, 2012:

Road system	\$	971,066
Water System		1,219,637
Less: accumulated depreciation – water system		(390,371)
Total	\$	1,800,633

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

Payables

On July 1, 2012, residents loaned the District funds to install a new water treatment system in the amount of \$550,000. The District is to pay back the residents over six years at an interest rate of 5.5%. The payments begin on July 1, 2013. The future minimum payments are as follows:

<u>Year</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 79,848	\$ 30,250	\$ 110,098
2014	84,240	25,858	110,098
2015	88,873	21,225	110,098
2016	93,761	16,337	110,098
2017	98,918	11,180	110,098
Thereafter	104,360	5,740	110,100
Total	\$ 550,000	\$ 110,590	\$ 660,590

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 Amendment

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.

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 2005, upon the advice to legal counsel the District ceased to accrue bond interest on the current and matured bond interest, bond principle had been paid in full.

As of December 31, 2012, the District has no knowledge of threatened or pending litigation involving the District

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

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have two elements: 1) capital assets used in government activities are not financial resources and, therefore are not reported in the funds; 2) amounts reported as fund balance have been reclassified for inclusion in Net Position.

The Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities include an adjustments column: 1) governmental funds do not report depreciation as expenditure. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.