

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2011

HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO

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Hiratsuka & Associates, L.L.P.

Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hamilton Creek Metropolitan District
Silverthorne, Colorado

We have audited the accompanying financial statements of the business-type activities of the Hamilton Creek Metropolitan District (the District), Silverthorne, Colorado, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such information 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. Our opinion on the basis financial statements is not affected by the information.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was presented for the purpose of additional analysis and was not a required part of the financial statements. The Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hiratsuka & Associates, LLP

Denver, Colorado
September 28, 2012

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**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2011**

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, 2011. 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 \$1,947,183. Of this amount, \$1,816,593 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 \$74,230 as District revenues continue to exceed expenditures.

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 (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 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 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 Assets

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 473,804	\$ 427,470
Capital assets	1,816,593	1,832,855
Total assets	<u>2,290,397</u>	<u>2,260,334</u>
Other liabilities	343,214	403,339
Total liabilities	<u>343,214</u>	<u>403,339</u>
Net assets:		
Invested in capital assets, net of related debt	1,816,593	1,832,855
Restricted for TABOR	13,892	13,892
Unrestricted	116,698	10,328
Total net assets	<u>\$ 1,947,183</u>	<u>\$ 1,856,995</u>

Comparative Statements of Activities

	<u>2011</u>	<u>2010</u>
Revenue	\$ 453,906	\$ 476,115
Expenditures:		
Current	379,676	395,212
Debt service	---	5,504
Total expenditures	<u>379,676</u>	<u>406,220</u>
Change in net assets	74,230	69,895
Net assets – beginning - restated	1,872,953	1,787,100
Net assets – ending	<u>\$ 1,947,183</u>	<u>\$ 1,856,995</u>

FUTURE PLANS:

The Hamilton Creek Metropolitan District will construct a new water treatment facility in 2012 with an anticipated cost of \$700,000. The new facility will be in the same location as the existing plant and the new facility is anticipated to meet the long term water treatment requirements of the District. Funding of the improvements will be from existing revenues, reserves, and \$550,000 in home owner loans. The owner loans will be repaid over six years. 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 escalating water usage rate structure. The District will continue an approach of aggressive roadway maintenance including crack filling and patching to defer road resurfacing as long as possible. 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 Assets
December 31, 2011**

	General Fund	Adjustments (Note 5)	Statement of Net Assets
Assets:			
Cash and cash equivalents	\$ 64,777	\$ -	\$ 64,777
Investments	2,203	-	2,203
Accounts receivable:			
Customer	814	-	814
Taxes - current	3,326	-	3,326
Homeowners - future construction	68,017	-	68,017
Taxes - assessed	318,405	-	318,405
Capital assets, net of accumulated depreciation where applicable:			
Road system	-	971,066	971,066
Water system	-	845,527	861,789
Total assets	457,542	1,816,593	2,290,397
Liabilities:			
Accounts payable	24,809	-	24,809
Deferred tax revenues	318,405	-	318,405
Total liabilities	343,214	-	343,214
Fund balance/Net assets			
Fund balances:			
Reserved for:			
Tabor	13,892	(13,892)	-
Unassigned	100,436	(100,436)	-
Total fund balance	114,328	(114,328)	-
Total liabilities and fund balance	\$ 457,542		
Net assets:			
Invested in capital assets, net of related debt		1,816,593	1,816,593
Restricted for:			
TABOR		13,892	13,892
Unrestricted		116,698	116,698
Total net assets		\$ 1,947,183	\$ 1,947,183

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, 2011

	General Fund	Adjustments (Note 5)	Statement of Activities
Revenues:			
Property taxes	\$ 387,629	\$ -	\$ 387,629
Specific ownership taxes	13,577	-	13,577
Interest	933	-	933
User fees	51,767	-	51,767
Total revenues	453,906	-	453,906
Expenditures:			
Current:			
Operating expense:			
Road maintenance	54,883	-	54,883
Water system maintenance	97,933	-	97,933
Forest maintenance	20,397	-	20,397
Utilities	4,199	-	4,199
Septic maintenance	13,785	-	13,785
Expensed capital items	98,999	-	98,999
Depreciation	-	15,962	15,962
Administration expense:			
Administration	36,000	-	36,000
Audit fees	6,500	-	6,500
Director's expense	1,700	-	1,700
Insurance	2,692	-	2,692
Legal	1,711	-	1,711
Office supplies and postage	1,937	-	1,937
Membership dues	819	-	819
Telephone	2,060	-	2,060
Miscellaneous	657	-	657
County treasurer's fees	19,417	-	19,417
Discount	25	-	25
Total expenditures	363,714	15,962	379,676
Excess of revenue over (under) expenditures	90,192	(90,192)	-
Change in net assets		74,230	74,230
Fund balance/net assets- beginning of year - restated	56,660	1,832,555	1,872,953
Fund balance/net assets - end of year	\$ 146,852	\$ 1,816,593	\$ 1,947,183

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 (non-GAAP)
For the year ended December 31, 2011**

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property taxes	\$ 387,629	\$ 387,629	\$ -
Specific ownership taxes	14,000	13,577	(423)
Interest	500	933	433
User fees	52,000	51,767	(233)
Water tap fees	6,000	-	(6,000)
Total revenues	460,129	453,906	(6,223)
Expenditures:			
Current:			
Operating expense:			
Road maintenance	75,000	54,883	20,117
Water system maintenance	90,000	97,933	(7,933)
Forest maintenance	25,000	20,397	4,603
Utilities	5,000	4,199	801
Septic maintenance	15,000	13,785	1,215
Expensed capital items	-	98,999	(98,999)
Administration expense:			
Administration	36,000	36,000	-
Audit fees	6,500	6,500	-
Director's expense	2,000	1,700	300
Insurance	3,000	2,692	308
Legal	1,000	1,711	(711)
Office supplies and postage	2,250	1,937	313
Membership dues	1,000	819	181
Telephone	2,400	2,060	340
Miscellaneous	500	657	(157)
County treasurer's fees	19,381	19,417	(36)
Discount	-	25	(25)
Total expenditures	284,031	363,714	(79,683)
Operating income	176,098	90,192	85,906
Other financing sources (uses):			
Loan/grant	2,000,000	-	2,000,000
Loan/grant - expenditures	(2,000,000)	-	(2,000,000)
Excess of revenue and other financing sources (uses) over expenditures non-GAAP budgetary basis	<u>\$ 176,098</u>	90,192	<u>\$ (85,906)</u>
Adjustments to GAAP basis			
Depreciation expense		<u>(15,962)</u>	
Net income GAAP basis		74,230	
Fund balance - beginning of year		<u>1,872,953</u>	
Fund balance - end of year		<u>\$ 1,947,183</u>	

The accompanying notes are an integral of this financial statement.

**HAMILTON CREEK METROPOLITAN DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 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.

Fund accounting

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

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

Measurement focus, basis of accounting and financial statement presentation (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 and net assets

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, 2011 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 and net assets (continued)

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.

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, 2011 the District expenditures exceed budget by \$79,683. The Bankruptcy court ruling precludes the District from capitalizing certain costs incurred in relationship to changes 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, 2011, all of the District's deposits were insured by the Federal Deposit Insurance Corporation and 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, 2011 District investments in the pool, carrying and fair value, were \$2,203. The Trust is rated AAAM by Standard & Poor's with an average maturity of 35 days.

Capital assets

The following is a summary of the District's capital assets at December 31, 2011:

Road system	\$	971,066
Water System		1,219,637
Less: accumulated depreciation – water system		(374,110)
Total	\$	1,816,593

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

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.

4. **Other information (continued)**

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.

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, 2011, 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 Assets 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 Assets.

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.