

**HAMILTON CREEK METROPOLITAN DISTRICT**

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FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

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DECEMBER 31, 2003

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 Hamilton Creek Metropolitan District, Silverthorne, Colorado, as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the management of Hamilton Creek Metropolitan District, Silverthorne, Colorado. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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 Hamilton Creek Metropolitan District, Silverthorne, Colorado, as of December 31, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Hiratsuka & Schmitt, LLP*

Denver, Colorado  
August 25, 2004

**HAMILTON CREEK METROPOLITAN DISTRICT**  
**Combined Balance Sheet - All Fund Types and Account Groups**  
**December 31, 2003**  
**(With comparative totals for December 31, 2002)**

	Governmental Fund				Totals	
	Types		Account Groups		(memorandum only)	
	General	Debt Service	General Fixed Assets	General Long-term Debt	2003	2002
<b>ASSETS AND OTHER DEBITS:</b>						
<b>Assets:</b>						
Cash and cash equivalents	\$ 6,135	\$ --	\$ --	\$ --	\$ 6,135	\$ 2,269
Investments	--	2,081,377	--	--	2,081,377	2,043,444
Accounts receivable:						
Customer	632	--	--	--	632	322
Taxes - current	--	1,562	--	--	1,562	1,314
Taxes - assessed	--	--	--	--	--	275,798
Due from other fund	166,209	--	--	--	166,209	199,428
Improvements	--	--	1,515,641	--	1,515,641	1,515,641
<b>Other debits:</b>						
Amount available in debt service fund	--	--	--	1,916,730	1,916,730	1,845,330
Amount to be provided for the retirement of long-term debt	--	--	--	6,519,162	6,519,162	6,141,698
<b>Total assets and other debits</b>	<b>\$ 172,976</b>	<b>\$ 2,082,939</b>	<b>\$ 1,515,641</b>	<b>\$ 8,435,892</b>	<b>\$ 12,207,448</b>	<b>\$ 12,025,244</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS:</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 159,819	\$ --	\$ --	\$ --	\$ 159,819	\$ 192,619
Construction deposits	9,000	--	--	--	9,000	6,000
Prepaid user fees	757	--	--	--	757	--
Deferred tax revenues	--	--	--	--	--	275,798
Due to other fund	--	166,209	--	--	166,209	199,428
Note payable	--	--	--	185,000	185,000	--
General obligation bonds payable	--	--	--	2,100,000	2,100,000	2,109,000
Matured interest payable	--	--	--	2,768,184	2,768,184	2,732,076
Interest on matured interest payable	--	--	--	3,382,708	3,382,708	3,145,952
<b>Total liabilities</b>	<b>169,576</b>	<b>166,209</b>	<b>--</b>	<b>8,435,892</b>	<b>8,771,677</b>	<b>8,660,873</b>
<b>FUND EQUITY AND OTHER CREDITS:</b>						
Investment in general fixed assets	--	--	1,515,641	--	1,515,641	1,515,641
Fund balance:						
Reserved for:						
Debt service	--	1,861,718	--	--	1,861,718	1,790,318
Capital improvements	--	55,012	--	--	55,012	55,012
Amendment 1	3,400	--	--	--	3,400	3,400
<b>Total equity and other credits</b>	<b>3,400</b>	<b>1,916,730</b>	<b>1,515,641</b>	<b>--</b>	<b>3,435,771</b>	<b>3,364,371</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 172,976</b>	<b>\$ 2,082,939</b>	<b>\$ 1,515,641</b>	<b>\$ 8,435,892</b>	<b>\$ 12,207,448</b>	<b>\$ 12,025,244</b>

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

**HAMILTON CREEK METROPOLITAN DISTRICT**  
**Combined Statement of Revenue, Expenditures and Changes in Fund Balance**  
**All Governmental Fund Types**  
**For the Fiscal Year Ended December 31, 2003**  
**(With comparative totals for the fiscal year ended December 31, 2002)**

	General	Debt Service	Totals (Memorandum only)	
			2003	2002
<b>Revenue:</b>				
Property taxes	\$ --	\$ 275,660	\$ 275,660	\$ 269,740
Specific ownership taxes	--	17,163	17,163	17,563
Interest	662	--	662	1,160
Unrealized gain on investments	--	39,879	39,879	152,607
User fees	43,590	--	43,590	42,316
Water tap fees	--	9,000	9,000	9,000
<b>Total revenue</b>	<b>44,252</b>	<b>341,702</b>	<b>385,954</b>	<b>492,386</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Administration	27,825	8,250	36,075	69,860
Legal and audit fees	2,895	39,017	41,912	122,106
Director's expense	1,050	--	1,050	1,425
Road maintenance	21,781	--	21,781	23,222
Water system maintenance	301,060	--	301,060	216,617
Forest maintenance	30,572	--	30,572	20,081
Utility operations	3,087	--	3,087	1,603
Septic maintenance	11,795	--	11,795	13,914
Miscellaneous	5,923	20,215	26,138	31,915
Discount	1,200	--	1,200	--
<b>Debt service:</b>				
Interest	11,075	--	11,075	--
County Treasurer fees	--	13,809	13,809	13,523
<b>Total expenditures</b>	<b>418,263</b>	<b>81,291</b>	<b>499,554</b>	<b>514,266</b>
<b>Excess of revenue over (under) expenditures</b>	<b>(374,011)</b>	<b>260,411</b>	<b>(113,600)</b>	<b>(21,880)</b>
<b>Other financing sources (uses):</b>				
Note proceeds	185,000	-	185,000	--
Transfer in (out)	189,011	(189,011)	--	--
<b>Total other financing sources (uses)</b>	<b>374,011</b>	<b>(189,011)</b>	<b>185,000</b>	<b>--</b>
<b>Excess of revenue over (under) expenditures and other financing sources (uses)</b>	<b>--</b>	<b>71,400</b>	<b>71,400</b>	<b>(21,880)</b>
Fund balance - beginning of year	3,400	1,845,330	1,848,730	1,870,610
<b>Fund balance - end of year (deficit)</b>	<b>\$ 3,400</b>	<b>\$ 1,916,730</b>	<b>\$ 1,920,130</b>	<b>\$ 1,848,730</b>

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

**HAMILTON CREEK METROPOLITAN DISTRICT**  
**Combined Statement of Revenues, Expenditures and**  
**and Changes in Fund Balance - Budget and Actual**  
**All Governmental Fund Types**  
**For the Fiscal Year Ended December 31, 2003**

	<b>Debt Service Fund</b>					
	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenue:</b>						
Property taxes	\$ --	\$ --	\$ --	\$ 275,798	\$ 275,660	\$ (138)
Specific ownership taxes	--	--	--	16,500	17,163	663
Interest	300	662	362	--	--	--
Development fees	--	--	--	5,000	--	(5,000)
Unrealized gain on investments	--	--	--	--	39,879	39,879
User fees	42,500	43,590	1,090	--	--	--
Water tap fees	--	--	--	4,500	9,000	4,500
<b>Total revenue</b>	<b>42,800</b>	<b>44,252</b>	<b>1,452</b>	<b>301,798</b>	<b>341,702</b>	<b>39,904</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Administration	27,720	27,825	(105)	10,000	8,250	1,750
Legal and audit fees	4,500	2,895	1,605	40,000	39,017	983
Directors' expense	1,500	1,050	450	--	--	--
Road maintenance	32,000	21,781	10,219	--	--	--
Water system maintenance	350,000	301,060	48,940	--	--	--
Forest maintenance	15,000	30,572	(15,572)	--	--	--
Utility operations	1,750	3,087	(1,337)	--	--	--
Septic maintenance	12,500	11,795	705	--	--	--
Miscellaneous	7,200	5,923	1,277	5,000	20,215	(15,215)
Discount	--	1,200	(1,200)	--	--	--
<b>Debt service:</b>						
Interest	--	11,075	(11,075)	--	--	--
County Treasurer fees	--	--	--	13,790	13,809	(19)
<b>Total expenditures</b>	<b>452,170</b>	<b>418,263</b>	<b>33,907</b>	<b>68,790</b>	<b>81,291</b>	<b>(12,501)</b>
<b>Excess of revenue over (under) expenditures</b>	<b>(409,370)</b>	<b>(374,011)</b>	<b>35,359</b>	<b>233,008</b>	<b>260,411</b>	<b>27,403</b>
<b>Other financing sources (uses):</b>						
Note proceeds	--	185,000	185,000	--	--	--
Transfer in (out)	--	189,011	189,011	--	(189,011)	(189,011)
<b>Total other financing sources (uses)</b>	<b>--</b>	<b>374,011</b>	<b>374,011</b>	<b>--</b>	<b>(189,011)</b>	<b>(189,011)</b>
<b>Excess of revenue over (under) expenditures and other financing sources (uses)</b>	<b><u>\$ (409,370)</u></b>	<b><u>--</u></b>	<b><u>\$ 409,370</u></b>	<b><u>\$ 233,008</u></b>	<b><u>71,400</u></b>	<b><u>\$ (161,608)</u></b>
Fund balance - beginning of year		<u>3,400</u>			<u>1,845,330</u>	
<b>Fund balance - end of year</b>		<u><u>\$ 3,400</u></u>			<u><u>\$ 1,916,730</u></u>	

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

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
December 31, 2003**

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**1. Summary of significant accounting policies**

The accounting policies of the Hamilton Creek Metropolitan District (the District) conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to governments. The following is a summary of the more significant policies consistently applied in the preparation of 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. As required by US GAAP, these financial statements present the activities of the District that is legally separate and financially independent of other state and local governments. The District has no component units as defined by the Governmental Accounting Standards Board (GASB) Statement 14.

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.

**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 the footnotes for additional information related to the reorganization.

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

The accounts of the District are organized and operated on the basis of fund types and account groups. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District has the following fund types and account groups:

**Governmental funds** - are used to account for general governmental activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Property taxes and user fees are susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

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

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

Governmental funds include the following fund types:

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

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

- A yearly transfer to the General fund in an amount sufficient to cover operating expenditures in excess of revenue.
- Payment of principal due on bonded debt.
- Payment to the Capital Improvement Reserve. The required payments were made in prior years equal to a predetermined schedule as required by the Plan. Unexpended reserve amounts are reported on the balance sheet of the Debt Service fund as a "reservation for capital improvements."

**Account groups** - the general fixed assets account group is used to account for the fixed assets acquired by the District. The general long-term debt account group is used to account for general long-term debt of the District.

**Assets, liabilities and equity**

**Deposits and Investments**

The District considers cash and cash equivalents to include demand deposits.

**Fair value of financial instruments**

The District's financial instruments include cash and cash equivalents, investments, accounts receivable, and accounts payable. Do to the short maturity of these instruments, the District estimates that the fair value of all financial instruments at December 31, 2003 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.

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

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

**Property taxes**

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

**Fixed assets**

All purchased fixed assets of the road, water and television systems equipment are recorded at historical cost.

**Construction deposits**

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

**Comparative data**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations.

**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.

State statutes require a balanced budget. Appropriations lapse at year-end. Expenditures of the Debt Service fund exceed but, the excess was funded by available reserves.

**2. Stewardship, compliance and accountability (continued)**

**Capital Improvement Reserve**

As previously discussed, the District Plan of Reorganization requires the District to establish a Capital Improvement Reserve prior to making payments on interest related to bonded debt. The District was required to establish a reserve in the amount of \$260,000 that could only be used for capital improvements. The District reserved the entire amount in prior years. As of December 31, 2003 the remaining unexpended balance in the reserve was \$55,012. No amounts were expended from the reserve during 2003, 2002, 2001, 2000, 1999 or 1998.

**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, 2003, all of the District's deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

**Investments**

Colorado 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, 2003 District investments in the pool, carrying and fair value, were \$5,168.

As of December 31, 2003, the District held in its name stripped United States Treasury Securities due November 15, 2004, with an original cost of \$263,865. The securities had a carrying and fair value of \$2,076,209 as of December 31, 2003. These securities are restricted for the payment of the principal on the general obligation debt that is due on the same maturity date of these securities.

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
December 31, 2003**

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

**Accounts receivable**

For the year ended December 31, 2003 the District adopted the requirements of GASB 33, accordingly property taxes are no longer recorded as a receivable or as deferred revenue as the lien on real property would not attach until January 1, 2004.

**Fixed assets**

The following is a summary of the District's general fixed assets at December 31, 2003:

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Road system	\$	971,366
Water system		544,275
<b>Total</b>	<b>\$</b>	<b>1,515,641</b>

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During the year there were no additions or deletions to the general fixed asset account group.

**Water System**

In 1996 and subsequent years, as a result of testing required by the State of Colorado, it was determined that the District's water well exceeded the Maximum Contaminant Level (MCL) for fluoride. The State issued an enforcement order requiring the District to immediately take action to correct the problem. As a result the District contracted with an independent engineering firm to determine the most cost-effective method of eliminating the fluoride problem. As of December 31, 2001, District engineers have developed a plan to use surface water from Hamilton Creek as a source of potable water.

A plan to use surface water from Hamilton Creek was filed with the State of Colorado in October 2002. The District began construction of control wires and electric service upgrades in October 2002. Construction on the infiltration gallery in Hamilton Creek and the pipe lines connecting it to a new treatment building were started in December 2003.

The District completed construction of the infiltration gallery, treatment building and pipelines in February 2002. The State of Colorado approved the October 2003 plan in February 2003. The treatment building plumbing and control equipment was completed in May 2003. Limited use of the new surface water began in May 2003. The District has used the new water source exclusively since August 22, 2003. The new source has no detectable fluoride and meets all other State water quality standards.

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
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**3. Detailed notes concerning the funds (continued)**

**General long-term debt**

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

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

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

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
December 31, 2003**

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

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

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

	<b>Interest New Bonds</b>	<b>Matured Coupons</b>	<b>Total</b>	<b>Principal</b>
1989	\$ 488,758	\$ 88,523	\$ 577,281	\$ -
1990	238,725	331,146	569,871	-
1991	238,613	304,143	542,756	-
1992	238,500	277,164	515,664	-
1993	238,387	250,221	488,608	-
1994	238,275	223,294	461,569	-
1995	238,163	196,393	434,556	-
1996	238,050	169,523	407,573	-
1997	237,937	142,674	380,611	-
1998	237,825	115,849	353,674	-
1999	237,713	89,051	326,764	-
2001	237,600	62,284	299,884	-
2001	237,487	35,539	273,026	-
2003	237,375	36,114	273,489	-
2003	236,757	8,810	245,567	-
2004	236,757	-	236,757	2,100,000
	<b>\$ 4,056,922</b>	<b>\$ 2,768,184</b>	<b>\$ 6,825,106</b>	<b>\$ 2,100,000</b>

Interest payable on the "new bonds" for 2003 includes unpaid interest on the original bonds of \$437,456.

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

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

On February 3, 2003 the District received a loan from the Hamilton Creek Homeowners and four individuals in the amount of \$185,000. With loan bears an interest rate of 8.5% including and origination fee of .5%.

**HAMILTON CREEK METROPOLITAN DISTRICT  
SILVERTHORNE, COLORADO  
Notes to Financial Statements  
December 31, 2003**

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

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

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

	Interest	Principal	Total
2004	\$ 15,714	\$ --	\$ 15,714
2005	15,675	87,500	103,175
2006	8,239	97,500	105,739
	\$ 39,628	\$ 185,000	\$ 224,628

**Changes in General Long-term Debt:**

Balance, December 31, 2001	\$ 2,110,000
Add loan payable	<u>185,000</u>
<b>Balance, December 31, 2003</b>	<b><u>\$ 2,295,000</u></b>

**4. Other information**

**Risk management**

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

**TABOR Amendment**

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

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

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

**4. Other information(continued)**

**TABOR Amendment (continued)**

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

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

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

A three-day trial on the questions returned by the Court of Appeals to the District Court was held January 7-9th, 2003. No decision has been returned by the Court.

The State of Colorado filed a motion with the District Court in 2003 claiming the District did not complete the water system repairs to remove fluoride in a timely manner and should be fined \$10,000. A hearing was held on September 19, 2003 regarding the motion of the State. The judge ruled the State's motion was not procedurally correct and without merit as the fluoride removal had been completed.