

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2004

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO**

CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	i-ii
Financial Statements	
Governmental Funds Balance Sheet/Statement of Net Assets.....	2
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities.....	3
General Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual.....	4
Notes to Financial Statements	5-14
Supplementary Information	
Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	15

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hamilton Creek Metropolitan District
Silverthorne, Colorado

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining fund information of the Hamilton Creek Metropolitan District (the District), Silverthorne, Colorado, as of and for the year ended December 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express 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 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.

As described in Note 1, the District has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted as of June 30, 2004.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, of the District, as of December 31, 2004, 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.

The management's discussion and analysis on pages i through ii and the supplementary information on page 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hiratsuka & Schmitt, LLP

Denver, Colorado
September 9, 2005

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004**

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, 2004. 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 liabilities of the District exceeded its assets at the close of the most recent year by \$4,733,051. Of this amount, \$1,875,638 was 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 decreased by \$165,436, due to the court ordered mandate to continue to accrue interest on the outstanding general obligation bonds with the further requirement to accrue interest on interest as related to the aforementioned bond interest.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's governmental type fund 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 (Accounting Principles Generally Accepted in the United States of America) budgetary basis.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the *District's* finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of District revenues that are principally supported by taxes, user and tap fees and other revenues. District expenditures distinguish between current and debt service expenditures.

The government-wide financial statements can be found on pages 2, 3 and 4 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 two funds as required by State Statute. The budgetary comparison statements are 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.

FUTURE PLANS:

- Continue to encourage conservation of water through education and escalating water rates.
- Install electronic read water meters to allow quick identification of water leaks or excess usage.
- Begin the development of plans for a permanent replacement of the District water pump station and treatment facility in the next three to five years. The water facility constructed to repair the contamination in the District water in 2003 was a temporary facility.
- Continue forest management work including removal of beetle infested trees and annual protective spraying of susceptible health trees. The long-term goal is to thin the forested areas and plant spruce seedlings to improve the diversity and health of the forest.
- Road maintenance will include annual asphalt crack filling to extend the life of the roads.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the

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HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Governmental Funds Balance Sheet/Statement of Net Assets
December 31, 2004

	General	Debt Service	Total	Adjustments (Note 5)	Statement of Net Assets
Assets:					
Cash and cash equivalents	\$ (624)	\$ --	\$ (624)	\$ --	\$ (624)
Investments	5,231	1,266	6,497	--	6,497
Accounts receivable:					
Customer	735	--	735	--	735
Taxes - current	--	1,468	1,468	--	1,468
Taxes - assessed	--	275,686	275,686	--	275,686
Internal balances	61,108	--	61,108	(61,108)	--
Capital assets, net of accumulated depreciation where applicable:					
Road system	--	--	--	971,366	971,366
Water system	--	--	--	904,272	904,272
Total assets	\$ 66,450	\$ 278,420	\$ 344,870	1,814,530	2,159,400
Liabilities:					
Accounts payable	54,050	--	54,050	--	54,050
Construction deposits	9,000	--	9,000	--	9,000
Deferred tax revenues	--	275,686	275,686	--	275,686
Internal balances	--	61,108	61,108	(61,108)	--
Long term liabilities:					
Note payable - operations	--	--	--	185,000	185,000
Matured interest payable	--	--	--	3,619,466	3,619,466
Interest on matured interest payable	--	--	--	2,804,223	2,804,223
Total liabilities	63,050	336,794	399,844	6,547,581	6,947,425
Fund balance/Net assets					
Fund balances:					
Reserved for:					
Tabor	3,400	--	3,400	(3,400)	--
Unreserved:					
Debt service	--	(58,374)	(58,374)	58,374	--
Total fund balances	3,400	(58,374)	(54,974)	54,974	--
Total liabilities and fund balances	\$ 66,450	\$ 278,420	\$ 344,870		
Net assets:					
Invested in capital assets, net of related debt				(4,548,051)	(4,548,051)
Restricted for:					
TABOR				3,400	3,400
Unrestricted (deficit)				(243,374)	(243,374)
Total net assets				\$ (4,788,025)	\$ (4,788,025)

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

HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/
Statement of Activities
For the Year Ended December 31, 2004

	General	Debt Service	Total	Adjustments (Note 5)	Statement of Activities
Revenue:					
Property taxes	\$ --	\$ 276,064	\$ 276,064	\$ --	\$ 276,064
Specific ownership taxes	--	17,118	17,118	--	17,118
Interest	1,002	--	1,002	--	1,002
Unrealized gain on investments	--	23,059	23,059	--	23,059
User fees	44,795	--	44,795	--	44,795
Water tap fees	--	13,500	13,500	--	13,500
Total revenue	45,797	329,741	375,538	--	375,538
Expenditures:					
Current:					
Administration	31,500	2,500	34,000	--	34,000
Legal and audit fees	3,316	5,857	9,173	--	9,173
Director's expense	1,125	--	1,125	--	1,125
Insurance	1,767	--	1,767	--	1,767
Road maintenance	50,832	--	50,832	--	50,832
Water system maintenance	85,723	--	85,723	--	85,723
Forest maintenance	16,963	--	16,963	--	16,963
Utility operations	3,204	--	3,204	--	3,204
Septic maintenance	15,165	--	15,165	--	15,165
Office supplies and postage	2,813	--	2,813	--	2,813
Membership dues	915	--	915	--	915
Telephone	829	--	829	--	829
Miscellaneous	47	500	547	--	547
Discount	25	--	25	--	25
Depreciation	--	--	--	15,537	15,537
Debt service:					
Principal	--	2,100,000	2,100,000	(2,100,000)	--
Interest	15,713	--	15,713	272,796	288,509
County Treasurer fees	--	13,847	13,847	--	13,847
Total expenditures	229,937	2,122,704	2,352,641	(1,811,667)	540,974
Excess of revenue over (under) expenditures	(184,140)	(1,792,963)	(1,977,103)	1,811,667	(165,436)
Other financing sources:					
Transfer - internal activities	184,140	(184,140)	--	--	--
Total other financing sources (uses)	184,140	(184,140)	--	--	--
Excess of revenues and transfers in over over expenditures and transfers out	--	(1,977,103)	(1,977,103)	(1,977,103)	--
Change in net assets				(165,436)	(165,436)
Fund balance/net assets - beginning of year	3,400	1,918,729	1,922,129	(6,544,718)	(4,622,589)
Fund balance/net assets (deficit) - end of year	\$ 3,400	\$ (58,374)	\$ (54,974)	\$ (8,687,257)	\$ (4,788,025)

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

HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2004

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenue:			
Interest	\$ 300	\$ 1,002	\$ 702
User fees	44,000	44,795	795
Total revenue	44,300	45,797	1,497
Expenditures:			
Current:			
Administration	31,500	31,500	--
Legal and audit fees	3,500	3,316	184
Directors' expense	1,500	1,125	375
Insurance	2,000	1,767	233
Road maintenance	32,000	50,832	(18,832)
Water system maintenance	70,000	85,723	(15,723)
Forest maintenance	10,000	16,963	(6,963)
Utility operations	3,500	3,204	296
Septic maintenance	12,500	15,165	(2,665)
Office supplies and postage	2,500	2,813	(313)
Membership dues	1,250	915	335
Telephone	1,100	829	271
Miscellaneous	500	47	453
Discount	--	24	(24)
Debt service:			
Interest	15,714	15,714	--
Capital outlay:			
Road improvements	10,000	--	10,000
Total expenditures	197,564	229,937	(32,373)
Excess of revenue (under) expenditures	(153,264)	(184,140)	(30,876)
Other financing sources:			
Transfer - internal activities	--	184,140	184,140
Total other financing sources (uses)	--	184,140	184,140
Excess (deficiency) of revenue and transfers in over expenditures	<u>\$ (153,264)</u>	--	<u>\$ 153,264</u>
Fund balance - beginning of year		<u>3,400</u>	
Fund balance - end of year		<u>\$ 3,400</u>	

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

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Notes to Financial Statements
December 31, 2004**

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 the financial statements.

Reporting entity

The Hamilton Creek Metropolitan District, Silverthorne, Colorado, was organized May 1, 1985, and is governed by a five-member elected Board of Directors. The District currently provides water, septic tank pumping, street maintenance, snow removal and forest maintenance (parks) services to the geographical area organized as the Hamilton Creek Metropolitan District. The District provides metered water for a fixed quarterly rate, charging additional fees for excessive usage.

The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement No 14, *The Financial Reporting Town* and GASB No. 39, *Determining Whether Certain Organizations Are Component Units*.

Basis of presentation

The accompanying financial statements are presented per GASB Statement No. 34, Sp 20 Special Purpose Governments.

The government-wide financial statements (i.e. the statement of net assets and the statement of revenues, expenses, and changes in fund net assets) report information on the *governmental-type activities* of the District, which rely to a significant extent on taxes and intergovernmental payments 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 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.

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

District Plan of Reorganization

On May 31, 1989, the District filed for Reorganization under Chapter 9 of the Bankruptcy Laws in the United States Bankruptcy Court for the District of Colorado. On February 1, 1990 the Court accepted the Plan of Reorganization (the Plan). The District is currently operating under the terms of the Plan, see also footnote 4 'Litigation' for additional information related to the reorganization.

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

Measurement focus, basis of accounting and 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's water system, as the current levels of activity do not warrant the use of a separate proprietary fund to report utility activities.

Debt Service Fund - debt service funds are generally used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs. However, the District Plan of Reorganization mandates that this fund account for all District property taxes, specific ownership taxes and 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. The current year required a transfer of \$184,140.
- Payments of principal 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; however the District does not currently have sufficient net assets to maintain the reserve.
- Unexpended reserve amounts are reported on the balance sheet of the Debt Service fund as a "reservation for capital improvements."

Assets, liabilities and equity

Fair value of financial instruments

The District's financial instruments include cash and cash equivalents, investments, accounts receivable, accounts payable and long-term liabilities. Do to the short maturity of these instruments, the District estimates that the fair value of all financial instruments at December 31, 2004 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)

Internal balances

The effect of interfund activity has been eliminated from the government wide financial statements.

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.

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.

Construction deposits

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

2. Stewardship, compliance and accountability

Budgetary information

In compliance with Colorado Revised Statutes, the District conforms to the following procedures, in establishing the budgetary data reflected in the financial statements:

Prior to October 15 of each year the District manager (not an elected official) submits a proposed operating budget for the fiscal year commencing the following January 1 to the Board of Directors (elected officials). The operating budget for the funds includes proposed expenditures and the means of financing them.

Public hearings are held at the regular Board of Directors' meetings to obtain taxpayer input. Prior to December 15 the budget is legally enacted through passage of a budget resolution. The Board of Directors must approve revisions that change total expenditures of the fund.

State statutes require a balanced budget. Expenditures of the General fund exceed budget because of expenditures mandated by the court ordered Plan of Reorganization and expenditures for unexpected required repairs to the water and road system, the excess was funded by a transfer from the Debt Service fund as required by the Plan.

2. Stewardship, compliance and accountability (continued)

Budgetary information (continued)

The Debt Service fund expenditures exceed budget. The District redeemed all of the outstanding principle balance on their general obligation bonds. The redemption was repaid from funds on deposit with the bond trustee. The District began funding the redemption of the bonds at the time the bonds were issued. The original funding has been earning interest which had the cumulative effect of providing funds in excess of the amount required for the principle redemption. See also the following note "investments."

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, 2004, 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 statues 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, 2004 District investments in the pool, carrying and fair value, were \$5,231.

As of December 31, 2004, the District held in its name stripped United States Treasury Securities due November 15, 2004, with an original cost of \$263,865. Securities with a fair value of \$2,100,000 were sold to redeem the principle balance outstanding on the District's general obligation bonds. The remaining balance at December 31, 2004 is \$1,266.

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Notes to Financial Statements
December 31, 2004**

3. Detailed notes concerning the funds (continued)

Capital assets

The following is a summary of the District's general fixed assets at December 31, 2004:

Road system	\$	971,366
Water System		1,165,276
Less: accumulated depreciation – water system		(261,004)
Total	\$	1,875,638

During the year there were no additions or deletions to District capital assets.

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 2002 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.

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. On November 15, 2004 the securities were used to redeem the principle amount on the bonds.
- 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 mil levy is limited to 40 mils.

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Notes to Financial Statements
December 31, 2004**

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:

	Interest New Bonds	Matured Coupons	Total
1989	\$ 51,302	\$ 88,532	\$ 601,552
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
2000	237,600	62,284	299,884
2001	237,487	35,539	273,026
2002	237,375	36,114	273,489
2003	236,757	36,030	272,787
2004	236,757	446,266	683,023
	\$ 3,619,466	\$ 2,804,223	\$ 6,423,689

Interest payable on the “new bonds” for 2004 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, 2004 the District received a loan from the Hamilton Creek Homeowners and four individuals in the amount of \$185,000. The loans bear an interest rate of 8.5% including and origination fee of .5%.

**HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Notes to Financial Statements
December 31, 2004**

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
2005	\$ 15,675	\$ --	\$ 15,675
2006	8,240	87,500	95,740
2007	8,239	97,500	105,739
	\$ 32,154	\$ 185,000	\$ 217,154

During the year ended December 31, 2004 the District paid interest on the loan in the amount of \$15,713, there was no payment on the principal amount.

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 severely limited. Under the terms of the Plan the District has not funded the "Reserve" except as the amount currently recorded in the fund equity of the General fund.

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 Appellate 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.

As part of the original 1998 filing, the District had entered into an Order of Consent with the State of Colorado in December 1999 to correct the fluoride problem with the water within two years. The District completed construction of the repairs in March 2003. Partial use of the repaired system began in May 2003 with full utilization of a new water source in August 2003. In May 2003 the State of Colorado filed a motion with the District Court to have a \$10,000 fine imposed on the District for not meeting the deadline of the order. In a hearing held on September 19, 2004 the District Court ruled that the State of Colorado did not follow statutory procedures in the filing of the motion and the request of the State was denied.

4. **Other information (continued)**

Litigation (continued)

The District Court entered a ruling on June 1, 2005 from the trial held January 7-9th, 2003. The ruling of the court was the water source of the District was not contaminated in 1990. The Court used the State of Colorado standards for water quality at the time of the bankruptcy as the determining factor. The Court also ruled that the interest on accrued interest continues to accrue after the payment of the Bond principal. However, the Federal Court ruling does not require the payment of the accrued interest.

In July 2005 the ruling of the District Court regarding the determination of the water contamination was appealed to the Colorado Court of Appeals by Colorado Bondshares. They have claimed that the trial judge was in error in not using a common dictionary definition of contamination as applied to the Hamilton Creek water in 1990, rather than the State standard in effect at the time.

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 four elements: 1) amounts reported as "internal balances" which have been eliminated; 2) capital assets used in government activities are not financial resources and, therefore are not reported in the funds; 3) long-term liabilities, including notes, bonds payable, and accrued interest payable not due and payable in the current period are not reported in the funds; 4) 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 includes an adjustments column: 1) governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 2) the repayment of principal on long-term debt consumes the current financial resources of governmental funds however this transaction has no effect on net assets. 3) interest expense that is not due and payable in the current period is not reported in the funds.

HAMILTON CREEK METROPOLITAN DISTRICT
SILVERTHORNE, COLORADO
Debt Service Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2004

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenue:			
Property taxes	\$ 276,513	\$ 276,064	\$ (449)
Specific ownership taxes	16,500	17,118	618
Unrealized gain on investments	--	23,059	23,059
Development fees	10,000	--	(10,000)
Water tap fees	9,000	13,500	4,500
Total revenue	312,013	329,741	17,728
Expenditures:			
Current:			
Administration	2,000	2,500	(500)
Legal and audit fees	5,000	5,857	(857)
Miscellaneous	500	500	--
Debt service:			
Principal	--	2,100,000	(2,100,000)
County Treasurer fees	13,826	13,847	(21)
Total expenditures	21,326	2,122,704	(2,101,378)
Excess of revenue over (under) expenditures	290,687	(1,792,963)	(2,083,650)
Other financing (uses):			
Transfer - internal activities	--	(184,140)	(184,140)
Total other financing (uses)	--	(184,140)	(184,140)
Excess (deficiency) of revenue over (under) expenditures and other financing (uses)	\$ 290,687	(1,977,103)	\$ (2,267,790)
Fund balance - beginning of year		<u>1,918,729</u>	
Fund balance (deficit) - end of year		<u>\$ (58,374)</u>	