PAINT BRUSH HILLS METROPOLITAN DISTRICT

FINANCIAL STATEMENTS

WITH

REQUIRED SUPPLEMENTARY INFORMATION

AND

ADDITIONAL INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2014

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	Page
Independent auditor's report	1
Financial statements	
Government-wide financial statements	
Statement of net position	3
Statement of activities	4
Fund financial statements	
Governmental fund	
Balance sheet	5
Reconciliation of the governmental fund balance sheet to the statement of net position	6
Statement of revenue, expenditures and changes in fund balance	7
Reconciliation of the governmental fund statement of revenues, expenditures and changes in fund balance to the statement of activities	8
Proprietary fund	
Statement of net position	9
Statement of revenues, expenditures and changes in fund net position	10
Statement of cash flows	11
Notes to financial statements	12
Required supplementary information	
Statement of revenues and expenses - general fund - budget vs. actual (non-GAAP) basis	22
Additional information	
Statement of revenues and expenses - water and wastewater fund - budget vs. actual (non-GAAP) basis	23

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

720 NORTH TEJON STREET
COLORADO SPRINGS, COLORADO 80903-1012

JEFFREY S. ROSACKER, CPA – PARTNER
MITCHELL K. DOWNS, CPA, ABV – PARTNER

GREGORY P. PARSONS, CPA

TELEPHONE (719) 636-2321
FAX (719) 636-2517
WEB WWW.SPRINGSCPA.COM

INDEPENDENT AUDITORS' REPORT

Board of Directors
Paint Brush Hills Metropolitan District
Peyton, Colorado

We have audited the accompanying financial statements of the governmental activities, and business-type activities of Paint Brush Hills Metropolitan District (District), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express opinions 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 from material misstatement.

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

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

thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

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

Management has omitted the management discussion and analysis (MDA) that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Additional Information

The Schedule of Revenues and Expenses - Water and Wastewater Fund – Budget vs Actual (Non-GAAP) basis is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to 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 Schedule of Revenue and Expenses - Water and Wastewater Fund - Budget vs Actual (Non-GAAP) basis is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Osborne, Parsons & Nosacka LLP

Colorado Springs, Colorado
July 24, 2015

FINANCIAL STATEMENTS

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government		
	Governmental activities	Business-type activities	Total
Assets			
Cash and cash equivalents	$ 140,354	$ 279,767	$ 420,121
Cash restricted	-	250,000	250,000
Accounts receivable - service fees	-	41,554	41,554
Account receivable - property tax	329,103	-	329,103
Prepaid expense	24,303	-	24,303
Land	-	669,455	669,455
Capital assets net of accumulated depreciation	-	6,707,733	6,707,733
Water rights net of accumulated amortization	-	2,952,006	2,952,006
Total assets	493,760	10,900,515	11,394,275
Liabilities			
Accounts payable	12,983	24,899	37,882
Accrued interest	-	1,958	1,958
Capital lease obligations	-	2,181,268	2,181,268
Total liabilities	12,983	2,208,125	2,221,108
Deferred inflow of resources	329,103	-	329,103
Net position			
Invested in capital assets, and water rights net of related debt	-	8,147,926	8,147,926
Restricted			
Debt service	-	250,000	250,000
Conservation Trust Fund	21,245	-	21,245
Emergency reserve	35,005	-	35,005
Unrestricted	95,424	294,464	389,888
Total net position	$ 151,674	$ 8,692,390	$ 8,844,064

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

		Program Revenues			Net Revenue (Expense) and Changes in Net Position		
Functions/programs	**Expenses**	**Charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**
Governmental activities							
Conservation Trust Fund	$ 671	$ -	$ 10,324	$ -	$ 9,653	$ -	$ 9,653
General fund	299,260	-	-	-	(299,260)	-	(299,260)
Total governmental activities	299,931	-	10,324	-	(289,607)	-	(289,607)
Business-type activities							
Water and wastewater funds	923,586	860,308	-	-	-	(63,278)	(63,278)
Total business-type activities	923,586	860,308	-	-	-	(63,278)	(63,278)
Total activities	$ 1,223,517	$ 860,308	$ 10,324	$ -	(289,607)	(63,278)	(352,885)
	General revenues						
	Property tax				330,112	-	330,112
	Specific ownership tax				34,855	-	34,855
	Investment income				302	600	902
	Other income				10,789	-	10,789
	Transfers				(47,010)	47,010	-
	Total general revenues				329,048	47,610	376,658
	Change in net position				39,441	(15,668)	23,773
	Net position - beginning				112,233	8,708,058	8,820,291
	Net position - ending				$ 151,674	$ 8,692,390	$ 8,844,064

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2014

	General Fund	Conservation Trust Fund	Total governmental funds
Assets			
Cash	$ 119,109	$ 21,245	$ 140,354
Property tax receivable	329,103	-	329,103
Prepaid expense	24,303	-	24,303
Total assets	$ 472,515	$ 21,245	$ 493,760
Liabilities			
Accounts payable	$ 12,983	$ -	$ 12,983
Accrued liabilities	-	-	-
Total liabilities	12,983	-	12,983
Deferred inflow of resources	329,103	-	329,103
FUND BALANCES			
Nonspendable	24,303	-	24,303
Restricted	26,244	21,245	47,489
Committed	8,761	-	8,761
Unrestricted	71,121	-	71,121
Total fund balance	130,429	21,245	151,674
Total liabilities and fund balance	$ 472,515	$ 21,245	$ 493,760

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014

Total fund balance - governmental fund	$	151,674
There are no differences between the fund balance and the net position		-
Total net position - governmental activities	$	151,674

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2014

	Conservation Trust Fund	General Fund	Total governmental funds
Revenues			
State contributions	$ 10,324	$ -	$ 10,324
Property taxes	-	330,112	330,112
Specific ownership taxes	-	34,855	34,855
Interest earnings	-	302	302
Miscellaneous income	-	10,789	10,789
Total revenues	10,324	376,058	386,382
Expenditures			
Operating expense	671	299,260	299,931
Total expenditures	671	299,260	299,931
Net change in fund balance	9,653	76,798	86,451
Other financing sources (uses)			
Transfers in (out)	-	(47,010)	(47,010)
Revenues and other sources in over (under) expenditures and other uses	9,653	29,788	39,441
Fund balance - beginning	11,592	100,641	112,233
Fund balance - ending	$ 21,245	$ 130,429	$ 151,674

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2014

Net change in fund balance - governmental fund	$	39,441
There are no differences between the governmental fund statement of revenues, expenditures and changes in fund balance to the statement of activities		-
Change in net position - governmental activities	$	39,441

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2014

	Water and Wastewater Fund
Assets	
Cash and cash equivalents	$ 279,767
Cash restricted	250,000
Accounts receivable - service fees	41,554
Land	669,455
Capital assets net of accumulated depreciation	6,707,733
Water rights net of accumulated amortization	2,952,006
Total assets	$ 10,900,515
Liabilities	
Accounts payable	$ 24,899
Accrued interest	1,958
Capital lease obligation	2,181,268
Total liabilities	2,208,125
Net position	
Invested in capital assets and water rights net of related debt	8,147,926
Restricted	
Debt service	250,000
Committed	206,648
Unrestricted	87,816
Total net position	$ 8,692,390

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURE AND CHANGE IN FUND NET POSITION
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2014

	Water and Wastewater Fund
Operating revenue	
Base fee	$ 264,518
Water services	346,517
Wastewater services	154,710
Miscellaneous income	19,633
Tap fees	74,930
Total operating revenue	860,308
Operating expenses	
Depreciation	254,448
Amortization	34,689
Wastewater/water	534,764
Total operating expenses	823,901
Total operating income	36,407
Non-operating revenue (expense)	
Interest earnings	600
Interest expense	(99,685)
Total non-operating revenue (expense)	(99,085)
Net loss before transfers	(62,678)
Transfers in	47,010
Change in net position	(15,668)
Net position - beginning	8,708,058
Net position - ending	$ 8,692,390

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2014

	Water and Wastewater Fund
Cash flows from operating activities	
Cash received from customers	$ 885,444
Cash payments to suppliers for goods and services	(527,712)
Net cash provided by operating activities	357,732
Cash flows from non-capital financing activities	
Fund transfers	47,010
Net cash provided by non-capital financing activities	47,010
Cash flows from capital and related financing activities	
Purchase of capital assets	(26,796)
Proceeds from capital lease financing	13,505
Principal paid on capital lease obligation	(172,253)
Interest paid on lease obligation	(99,685)
Net cash used by capital and related financing activities	(285,229)
Cash flows from investing activities	
Interest received	600
Net cash provided by investing activities	600
Net increase in cash and cash equivalents	120,113
Cash and cash equivalents - Beginning	159,654
Cash and cash equivalents - Ending	$ 279,767
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 36,407
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	254,448
Amortization expense	34,689
Changes in assets/liabilities	
Accounts receivable	25,136
Accounts payable	7,052
Net cash provided by operating activities	$ 357,732

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies used in the preparation of these financial statements follows.

Organization - Paint Brush Hills Metropolitan District (District) is a quasi-municipal corporation and political subdivision of the State of Colorado. The District was organized by recorded order and decree of the District Court of the County of El Paso in 1987 and is governed pursuant to provisions of the Colorado Special District Act. The District operates under a service plan approved by the El Paso County Board of County Commissioners, as amended. The District's service area is located within the unincorporated portion of El Paso County. The District currently provides water, wastewater and parks services and facilities to residents of the District.

The District was established to coordinate the acquisition and financing of public improvements within and outside the District's boundaries. After construction of the public improvements was completed, many assets were transferred to El Paso County for ownership and operations and maintenance. The District has retained its responsibility for providing water and wastewater service and maintaining parks services for and to the residents of the District.

The District's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Financial reporting entity - The District has no component units for which either discrete or blended presentation is required. The inclusion or exclusion of component units is based on a determination of the elected officials' financial accountability to their constituents, and whether the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government (including its blended component units that are, in substance, part of the primary government) and discretely presented component units. The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to fiscal dependency, imposition of will, legal standing, and the primary recipient of services.

Government-wide financial statements - The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities are financed to a significant extent by fees and charges.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include 1) fees and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Fund financial statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified 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 period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in proprietary funds statements. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

The accounts of the District are organized and operated on the basis of funds. 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 maintained is consistent with legal and managerial requirements.

The District reports the following governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Conservation Trust Fund - Activity in the Conservation Trust Fund relate to proceeds from lottery funds, restricted for specific activities such as parks and recreation.

The District reports the following proprietary fund:

Proprietary Fund - A proprietary fund is used to account for those operations financed and operated in a manner similar to private business or where the Board of Directors has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District has one proprietary fund, the Water and Wastewater Fund. The intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges for services. Operating expenses for proprietary funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and cash equivalents - Cash and cash equivalents include cash on hand and in the bank, money market fund with original maturities of three months or less from the date of acquisition including restricted cash and investments. Investments are stated at fair value.

Receivables - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due to and from other funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds". In the government-wide financial statements, all internal balances have been substantially eliminated.

Restricted cash and investments - The use of certain cash of the District is restricted. These cash items are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by debt agreements.

Capital assets - Capital assets, which include property, plant, equipment and vehicles, are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

If proprietary fund assets are constructed, interest is capitalized on the assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Buildings, improvements, vehicles, and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Plant	40 years
Park improvements	20 years
Other items	4-5 years
Water rights exhaustible	100 years
Water rights inexhaustible	not depreciated

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

Deferred outflows and inflows of resources - Deferred outflow and inflow of resources are a consumption or acquisition of net assets applicable to a future reporting period.

Long-term liabilities - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Issuance costs are expensed as incurred.

Fund balance classification - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

- *Nonspendable* - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

- *Restricted* - This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- *Committed* - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- *Assigned* - This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors, or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

- *Unassigned* - This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The District would typically use *Restricted* fund balances first, followed by *Committed* resources, and then *Assigned* resources, as appropriate opportunities arise, but reserves the right to selectively spend *Unassigned* resources first to defer the use of these other classified funds.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budget information - The District follows the requirements set forth in the Local Government Budget Law of Colorado, which includes these procedures in establishing the budgetary data reflected in the financial statements:

A. In the fall, the District Accountant submits to the Board of Directors, a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

B. A public hearing is conducted by the District's Board to obtain public comments.

C. Prior to December 15, the budget is legally adopted and the Mill Levy is certified with the El Paso County Board of County Commissioners.

D. Any revisions that alter the total expenditures of any fund must be approved by the Board of Directors at a public hearing.

E. Formal budgetary integration is employed as a management control device during the year for the governmental and proprietary funds.

F. The budget for the General and Conservation Trust Funds is adopted on a basis consistent with GAAP.

G. The budget for the Water and Wastewater Fund are prepared on a basis of accounting other than generally accepted accounting principles. The primary differences are that long-term debt proceeds are treated as a budget source, capital expenditures and principal payments are treated as a budget use.

H. Budgeted amounts are as originally adopted or amended.

I. All annual appropriations lapse at the end of the year.

NOTE 1 – DEPOSITS

Reconciliation of cash and cash equivalents to the government-wide financial statements at December 31, 2014 was:

	Cash and cash equivalents	Restricted cash and cash equivalents	Total
General Fund	$ 140,354	$ -	$ 140,354
Proprietary Fund	279,767	250,000	529,767
Total cash and cash equivalents	$ 420,121	$ 250,000	$ 670,121

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured pubic deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

At December 31, 2014, the carrying amount of the District's cash balance was $670,121 and the bank balances were $694,634. Of the bank balances, $505,244 was covered by federal depository insurance and $189,390 falls under the provisions of the PDPA, which is collateralized in single institution pools.

NOTE 2 – INVESTMENTS

The District is authorized by Colorado statutes to invest in the following:

- Obligations of the United States and certain U.S. government agencies' securities;
- Certain international agencies' securities;
- General obligation and revenue bonds of U.S. local government entities;
- Bankers' acceptances of certain banks;
- Certain commercial paper;
- Local government investment pools;
- Written repurchase agreements collateralized by certain authorized securities;
- Certain money market funds;
- Guaranteed investment contracts

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2014, consisted of the following:

User fees	$ 60,985
Less allowance for doubtful accounts	(19,431)
Total	$ 41,554

NOTE 4 – CAPITAL ASSETS

Business-type capital asset activity for the year ended December 31, 2014 was:

	Beginning balance	Additions	Transfer	Deletions	Ending balance
Capital assets not being depreciated					
Land	$ 669,455	$ -	$ -	$ -	$ 669,455
Total capital assets not being depreciated	669,455	-	-	-	669,455
Capital assets being depreciated					
Plant	9,176,795	-	-	-	9,176,795
Parks	311,078	-	-	-	311,078
Other	39,501	25,063	-	-	64,564
Total capital assets being depreciated	9,527,374	25,063	-	-	9,552,437
Less accumulated depreciation					
Plant	(2,485,300)	(229,735)	-	-	(2,715,035)
Parks	(74,347)	(15,554)	-	-	(89,901)
Other	(30,609)	(9,159)	-	-	(39,768)
Total accumulated depreciation	(2,590,256)	(254,448)	-	-	(2,844,704)
Total capital assets being depreciated - net	6,937,118	(229,385)	-	-	6,707,733
Total capital assets - net	$ 7,606,573	$ (229,385)	$ -	$ -	$ 7,377,188

Depreciation charged to business-type activities expense was $254,448.

NOTE 5 – WATER RIGHTS

An analysis of water rights activity for the year ended December 31, 2014, is as follows:

	Beginning balance	Additions	Transfer	Deletions	Ending balance
Business-type activities					
Original water right (a)	$ 3,574,200	$ -	$ -	$ -	$ 3,574,200
Denver and Dawson (a)	713,400	-	-	-	713,400
Meridian (b)	180,000	-	-	-	180,000
Total water rights	4,467,600				4,467,600
Less accumulated amortization					
Original water right (a)	(1,416,699)	(27,555)	-	-	(1,444,254)
Denver and Dawson (a)	(64,206)	(7,134)	-	-	(71,340)
Meridian (b)	-	-	-	-	-
	(1,480,905)	(34,689)	-	-	(1,515,594)
Total water rights, net	$ 2,986,695	$ (34,689)	$ -	$ -	$ 2,952,006

(a) Amortized over an original estimated useful life, not to exceed, 100 years.
(b) Considered to be inexhaustible and is not being amortized.

Amortization changed to business-type activities expense was $34,689.

NOTE 6 – DEFERRED INFLOW AND OUTFLOW OF RESOURCES

At December 31, 2014, deferred inflow of resources in the Government Activities fund consists of deferred property tax revenue.

NOTE 7 – CAPITAL LEASE OBLIGATION

Annual debt service requirements to maturity for the capital leases, both the prior lease and the refinanced lease are as follows:

Years	As of 12/31/2014		Subsequent to refinancing	
ending	Principal	Interest	Principle	Interest
2015	$ 188,131	$ 90,012	$ 131,846	$ 42,584
2016	183,427	82,518	193,187	58,841
2017	191,728	74,217	199,063	52,965
2018	200,155	65,790	205,118	46,910
2019	208,952	56,993	211,356	40,671
Thereafter	1,208,875	139,131	1,240,698	103,449
	$ 2,181,268	$ 508,661	$ 2,181,268	$ 345,420

NOTE 7 – CAPITAL LEASE OBLIGATION – Continued

Changes in capital lease obligations consist of:

	Beginning balance	Increases	Decreases	Ending balance	Due within one year
Business-type activities					
Capital lease obligations	$ 2,326,724	$ 26,797	$ (172,253)	$ 2,181,268	$ 188,131

NOTE 8 – NET POSITION

The District has net position consisting of three components:

- Invested in capital assets and water rights, net of related debt
- Restricted
- Unrestricted

Invested in capital assets and water rights, net of related debt, consists of the net book value of capital assets and water rights net of accumulated depreciation reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets amounts invested in water rights. As of December 31, 2014, the net position balance consisted of:

Invested in capital assets, net of related debt	
Capital assets, net of depreciation	$ 7,377,188
Less: related debt	(2,181,268)
Total invested in capital assets, net of related debt	5,195,920
Invested in water rights net of amortization	2,952,006
Total invested in capital assets and water rights	$ 8,147,926

Restricted net position includes amounts restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. As of December 31, 2014, the District had restricted net position as follows:

Restricted for	
Debt service	$ 250,000
Conservation trust funds	21,245
Emergency reserve	35,005
Total restricted net position	$ 306,250

NOTE 9 – RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as amended from time to time, the District may be exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Colorado Special District's Property and Liability Pool. This pool is an organization created by intergovernmental agreement to provide property, liability, public official liability and workmen's compensation coverage to its members. Settled claims have not exceeded the coverage in any of the last three years.

NOTE 10 – AMENDMENT TO COLORADO CONSTITUTION

In November 1992, the voters of Colorado approved the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X, of the Colorado Constitution. In general, TABOR restricts the ability of the State and local governments to increase revenues and spending, to impose taxes, and to issue debt and certain other types of obligations without voter approval. TABOR generally applies to the State and all local governments, including the District.

Fiscal year spending and revenue limits are determined based on the prior years' spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE 11 – WATER AND SEWER TAP CONNECTIONS

The District acquired its water rights in 1987 when it entered into an agreement to issue water and sewer tap connections to the original developer of Falcon Hills in exchange for the developer's water rights that were valued at $3,574,200. The unsold connection rights were acquired by a third party in 1999 when they purchased the undeveloped portion of Falcon Hills. The purchaser of the remaining connection rights was a related party to the District until 2009 when the last remaining beneficial owner resigned from the District's Board of Directors. In 2009, the District entered into an agreement with the subsequent developer to split the sale of future connections, 60% to the developer and 40% to the District. In 2014, eleven connections were sold leaving a total of 440 unsold connections.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 24, 2015, the date on which the financial statements were available to be issued. Effective March 31, 2015, the District refinanced the capital lease agreements with a new lender, see revised payment schedule in NOTE 7. In April of 2015, a third party developer approached the District about the possibility of establishing a sub district, and the board passed a resolution authorizing the creation of a sub district.

REQUIRED SUPPLEMENTAL INFORMATION

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES AND EXPENSES - GENERAL FUND -
BUDGET VS. ACTUAL
YEAR ENDED DECEMBER 31, 2014

	Original and final budget	Actual (non-GAAP) basis	Variance with final budget positive (negative)
Revenue			
Property taxes	$ 330,104	$ 330,112	$ 8
Specific ownership taxes	26,500	34,855	8,355
State contributions	-	10,324	10,324
Investment earnings	1,000	302	(698)
Other	1,500	10,789	9,289
Total revenue	359,104	386,382	27,278
Administration, parks and general	369,991	299,931	70,060
Excess of revenues over (under) expenses	(10,887)	86,451	97,338
Transfers out	(69,202)	(47,010)	22,192
Change in net position	$ (80,089)	$ 39,441	$ 119,530

See notes to financial statements

ADDITIONAL INFORMATION

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES AND EXPENSES - WATER AND WASTEWATER FUND - BUDGET VS. ACTUAL (NON-GAAP) BASIS
YEAR ENDED DECEMBER 31, 2014

	Original and final budget	Actual (non-GAAP) basis	Variance with final budget positive (negative)
Revenue			
Base fees	$ 265,680	$ 264,518	$ (1,162)
Wastewater services	155,400	154,710	(690)
Water services	660,362	346,517	(313,845)
Investment earnings	300	600	300
Tap fee	54,529	74,930	20,401
Other	14,605	19,633	5,028
Total revenue	1,150,876	860,908	(289,968)
Expenditures			
Water/wastewater	499,889	534,764	(34,875)
Capital			
Capital assets	575,000	26,796	548,204
Capital obligation principal payments	161,408	162,513	(1,105)
Capital obligation interest payment	104,538	99,685	4,853
Total capital expenditures	840,946	288,994	551,952
Total expenditures	1,340,835	823,758	517,077
Excess of revenues over (under) expenses	(189,959)	37,150	227,109
Transfers in	69,202	47,010	(22,192)
Change in net position	$ (120,757)	84,160	$ 204,917
GAAP adjustments			
Capital assets		26,796	
Depreciation		(254,448)	
Amortization		(34,689)	
Capital obligation principal payments		162,513	
Total GAAP adjustments		(99,828)	
Change in net position		$ (15,668)	