

PAINT BRUSH HILLS METROPOLITAN DISTRICT

FINANCIAL STATEMENTS

WITH

REQUIRED SUPPLEMENTARY INFORMATION

AND

ADDITIONAL INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2015

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	
Schedule of revenues and expenses - general fund - budget vs. actual (non-GAAP) basis	23
Schedule of revenues and expenses - conservation trust fund - budget vs. actual (non-GAAP) basis	24
Additional information	
Schedule of revenues and expenses - water and wastewater fund - budget vs. actual (non-GAAP) basis	25

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

601 NORTH NEVADA AVENUE
COLORADO SPRINGS, COLORADO 80903

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, 2015, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the business-type activities of the District, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows

INDEPENDENT AUDITORS' REPORT - CONTINUED

Page 2

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 vs Actual and the Schedule of Revenues and Expenses - Conservation Trust Fund - 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues and Expenses - Water and Wastewater Fund - Budget vs Actual (Non-GAAP) Basis is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing 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 basic 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 & Rosacher LLP

Colorado Springs, Colorado
July 27, 2016

FINANCIAL STATEMENTS

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Primary Government		
	Governmental activities	Business-type activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 125,047	\$ 351,366	\$ 476,413
Accounts receivable - service fees	-	56,110	56,110
Account receivable - property tax	365,000	-	365,000
Prepaid expense	29,428	-	29,428
Total current assets	519,475	407,476	926,951
Noncurrent assets			
Land	-	749,944	749,944
Capital assets net of accumulated depreciation	-	6,714,405	6,714,405
Water rights net of accumulated amortization	-	2,917,317	2,917,317
Total noncurrent assets	-	10,381,666	10,381,666
Total assets	\$ 519,475	\$ 10,789,142	\$ 11,308,617
Liabilities			
Current liabilities			
Accounts payable	\$ 9,631	\$ 25,821	\$ 35,452
Accrued interest	-	5,348	5,348
Current portion of capital lease obligations	-	207,150	207,150
Total current liabilities	9,631	238,319	247,950
Noncurrent liabilities			
Capital lease obligations net of current portion	-	1,870,694	1,870,694
Total noncurrent liabilities	-	1,870,694	1,870,694
Total liabilities	9,631	2,109,013	2,118,644
Deferred inflow of resources	364,516	-	364,516
Net position			
Net investment in capital assets	-	8,303,822	8,303,822
Restricted			
Conservation Trust Fund	31,579	-	31,579
Emergency reserve	48,446	-	48,446
Unrestricted	65,303	376,307	441,610
Total net position	145,328	8,680,129	8,825,457
Total liabilities and net position	\$ 519,475	\$ 10,789,142	\$ 11,308,617

See notes to financial statements

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

Functions/programs	Program Revenues			Net Revenue (Expense) and Changes in Net Position			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
Conservation Trust Fund	\$ -	\$ -	\$ 10,334	\$ -	\$ 10,334	\$ -	\$ 10,334
General fund	394,302	-	-	-	(394,302)	-	(394,302)
Total governmental activities	<u>394,302</u>	<u>-</u>	<u>10,334</u>	<u>-</u>	<u>(383,968)</u>	<u>-</u>	<u>(383,968)</u>
Business-type activities							
Water and wastewater funds	930,159	917,014	-	-	-	(13,145)	(13,145)
Total business-type activities	<u>930,159</u>	<u>917,014</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,145)</u>	<u>(13,145)</u>
Total activities	<u>\$ 1,324,461</u>	<u>\$ 917,014</u>	<u>\$ 10,334</u>	<u>\$ -</u>	<u>(383,968)</u>	<u>(13,145)</u>	<u>(397,113)</u>
General revenues							
Property tax					329,103	-	329,103
Specific ownership tax					37,190	-	37,190
Investment income					454	884	1,338
Other income					10,875	-	10,875
Total general revenues					<u>377,622</u>	<u>884</u>	<u>378,506</u>
Change in net position					<u>(6,346)</u>	<u>(12,261)</u>	<u>(18,607)</u>
Net position - beginning					<u>151,674</u>	<u>8,692,390</u>	<u>8,844,064</u>
Net position - ending					<u>\$ 145,328</u>	<u>\$ 8,680,129</u>	<u>\$ 8,825,457</u>

See notes to financial statements

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Conservation Trust Fund</u>	<u>Total governmental funds</u>
Assets			
Cash	\$ 93,468	\$ 31,579	\$ 125,047
Property tax receivable	365,000	-	365,000
Prepaid expense	29,428	-	29,428
Total assets	<u><u>\$ 487,896</u></u>	<u><u>\$ 31,579</u></u>	<u><u>\$ 519,475</u></u>
Liabilities			
Accounts payable	\$ 9,631	\$ -	\$ 9,631
Total liabilities	<u>9,631</u>	<u>-</u>	<u>9,631</u>
Deferred inflow of resources	<u>364,516</u>	<u>-</u>	<u>364,516</u>
Fund balances			
Nonspendable	29,428	-	29,428
Restricted	38,945	31,579	70,524
Committed	9,501	-	9,501
Unassigned	35,875	-	35,875
Total fund balance	<u>113,749</u>	<u>31,579</u>	<u>145,328</u>
Total liabilities and fund balance	<u><u>\$ 487,896</u></u>	<u><u>\$ 31,579</u></u>	<u><u>\$ 519,475</u></u>

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, 2015**

Total fund balance - governmental fund	\$ 145,328
There are no differences between the fund balance and the net position	<u>-</u>
Total net position - governmental activities	<u><u>\$ 145,328</u></u>

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, 2015**

	<u>General Fund</u>	<u>Conservation Trust Fund</u>	<u>Total governmental funds</u>
Revenues			
State contributions	\$ -	\$ 10,334	\$ 10,334
Property taxes	329,103	-	329,103
Specific ownership taxes	37,190	-	37,190
Interest earnings	454	-	454
Miscellaneous income	10,875	-	10,875
Total revenues	<u>377,622</u>	<u>10,334</u>	<u>387,956</u>
Expenditures			
Operating expense	394,302	-	394,302
Total expenditures	<u>394,302</u>	<u>-</u>	<u>394,302</u>
Net change in fund balance	(16,680)	10,334	(6,346)
Fund balance - beginning	<u>130,429</u>	<u>21,245</u>	<u>151,674</u>
Fund balance - ending	<u>\$ 113,749</u>	<u>\$ 31,579</u>	<u>\$ 145,328</u>

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, 2015**

Net change in fund balance - governmental fund	\$ (6,346)
There are no differences between the governmental fund statement of revenues, expenditures and changes in fund balance to the statement of activities	<u>-</u>
Change in net position - governmental activities	<u><u>\$ (6,346)</u></u>

See notes to financial statements

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2015**

	<u>Water and Wastewater Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 351,366
Accounts receivable - service fees	56,110
Total current assets	<u>407,476</u>
Noncurrent assets	
Land	749,944
Capital assets net of accumulated depreciation	6,714,405
Water rights net of accumulated amortization	2,917,317
Total noncurrent assets	<u>10,381,666</u>
Total assets	<u><u>\$ 10,789,142</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 25,821
Accrued interest	5,348
Current portion of capital lease obligations	207,150
Total current liabilities	<u>238,319</u>
Noncurrent liabilities	
Capital lease obligations net of current portion	1,870,694
Total noncurrent liabilities	<u>1,870,694</u>
Total liabilities	<u><u>2,109,013</u></u>
Net position	
Net investment in capital assets	8,303,822
Restricted	200,000
Unrestricted	176,307
Total net position	<u>8,680,129</u>
Total liabilities and net position	<u><u>\$ 10,789,142</u></u>

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, 2015**

	<u>Water and Wastewater Fund</u>
Operating revenue	
Base fee	\$ 261,938
Water services	381,079
Wastewater services	154,107
Miscellaneous income	48,055
Tap fees	71,835
Total operating revenue	<u>917,014</u>
 Operating expenses	
Depreciation	268,666
Amortization	34,690
Wastewater/water	555,966
Total operating expenses	<u>859,322</u>
 Total operating income	<u>57,692</u>
 Non-operating revenue (expense)	
Interest earnings	884
Interest expense	(70,837)
Total non-operating revenue (expense)	<u>(69,953)</u>
 Change in net position	(12,261)
 Net position - beginning	<u>8,692,390</u>
 Net position - ending	<u>\$ 8,680,129</u>

See notes to financial statements

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2015**

	<u>Water and Wastewater Fund</u>
Cash flows from operating activities	
Cash received from customers	\$ 902,458
Cash payments to suppliers for goods and services	(551,654)
Net cash provided by operating activities	<u>350,804</u>
Cash flows from non-capital financing activities	
Cash released from covenantal restriction	250,000
Net cash provided by non-capital financing activities	<u>250,000</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(355,828)
Proceeds from capital lease financing	34,207
Principal paid on capital lease obligation	(137,631)
Interest paid on lease obligation	(70,837)
Net cash used by capital and related financing activities	<u>(530,089)</u>
Cash flows from investing activities	
Interest received	884
Net cash provided by investing activities	<u>884</u>
Net increase in cash and cash equivalents	71,599
Cash and cash equivalents - Beginning	279,767
Cash and cash equivalents - Ending	<u>\$ 351,366</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 57,692
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	268,666
Amortization expense	34,690
Changes in assets/liabilities	
Accounts receivable	(14,556)
Accounts payable	4,312
Net cash provided by operating activities	<u>\$ 350,804</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
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 adopted a resolution to form a subdistrict in 2015 for which either discrete or blended presentation will be required, however the subdistrict did not have any financial activity during the year. 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

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

function or segment and 2) grants and contributions that are restricted to meeting the operational or 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

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

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.

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.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – DEPOSITS

Reconciliation of cash and cash equivalents to the government-wide financial statements at December 31, 2015 was:

	<u>Cash and cash equivalents</u>
General Fund	\$ 125,047
Proprietary Fund	351,366
Total cash and cash equivalents	<u><u>\$ 476,413</u></u>

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 public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

At December 31, 2015, the carrying amount of the District's cash balance was \$476,413 and the bank balances were \$556,230. Of the bank balances, \$269,241 was covered by federal depository insurance and \$285,829 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

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2015, consisted of the following:

User fees	\$ 58,325
Less allowance for doubtful accounts	<u>(2,215)</u>
Total	<u><u>\$ 56,110</u></u>

NOTE 4 – CAPITAL ASSETS

Business-type capital asset activity for the year ended December 31, 2015 was:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfer</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets not being depreciated					
Land	\$ 669,455	\$ -	\$ -	\$ -	\$ 669,455
Construction in progress	-	80,489	-	-	80,489
Total capital assets not being depreciated	<u>669,455</u>	<u>80,489</u>	<u>-</u>	<u>-</u>	<u>749,944</u>
Capital assets being depreciated					
Plant	9,176,795	246,917	-	-	9,423,712
Parks	311,078	-	-	-	311,078
Other	64,564	28,422	-	-	92,986
Total capital assets being depreciated	<u>9,552,437</u>	<u>275,339</u>	<u>-</u>	<u>-</u>	<u>9,827,776</u>
Less accumulated depreciation					
Plant	(2,715,035)	(240,556)	-	-	(2,955,591)
Parks	(89,901)	(15,554)	-	-	(105,455)
Other	(39,768)	(12,557)	-	-	(52,325)
Total accumulated depreciation	<u>(2,844,704)</u>	<u>(268,667)</u>	<u>-</u>	<u>-</u>	<u>(3,113,371)</u>
Total capital assets being depreciated - net	6,707,733	6,672	-	-	6,714,405
Total capital assets - net	<u><u>\$ 7,377,188</u></u>	<u><u>\$ 87,161</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,464,349</u></u>

Depreciation charged to business-type activities expense, including capital lease assets, was \$268,666.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – WATER RIGHTS

An analysis of water rights activity for the year ended December 31, 2015, is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfer</u>	<u>Deletions</u>	<u>Ending balance</u>
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	<u>4,467,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,467,600</u>
Less accumulated amortization					
Original water right (a)	(1,444,254)	(27,555)	-	-	(1,471,809)
Denver and Dawson (a)	(71,340)	(7,134)	-	-	(78,474)
Meridian (b)	-	-	-	-	-
	<u>(1,515,594)</u>	<u>(34,689)</u>	<u>-</u>	<u>-</u>	<u>(1,550,283)</u>
Total water rights, net	<u>\$ 2,952,006</u>	<u>\$ (34,689)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,917,317</u>

(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 \$34,690.

NOTE 6 – DEFERRED INFLOW AND OUTFLOW OF RESOURCES

At December 31, 2015, deferred inflow of resources in the Government Activities fund consists of unearned property tax revenue.

NOTE 7 – CAPITAL LEASE OBLIGATION

Capital lease obligations consist of the following:

The District leases a land and equipment payable in monthly installments of \$21,002, including interest at 3.00%. Due April 1, 2025.

Cost	\$ 10,093,167
Accumulated depreciation	(2,955,589)
Total	<u>\$ 7,137,578</u>

The District leases a vehicle payable in two annual installments of \$15,029 and \$14,886, including interest at 3.75%. Due October 15, 2017.

Cost	\$ 28,422
Accumulated depreciation	(3,553)
Total	<u>\$ 24,869</u>

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 – CAPITAL LEASE OBLIGATION – Continued

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

<u>Years ending December 31,</u>	<u>Principle</u>	<u>Interest</u>
2016	\$ 207,150	\$ 59,907
2017	213,522	53,393
2018	205,118	46,910
2019	211,356	40,671
2020	217,785	34,243
2021 to 2025	1,022,913	69,206
	<u>\$ 2,077,844</u>	<u>\$ 304,330</u>

Changes in capital lease obligations consist of:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>	<u>Due within one year</u>
Business-type activities					
Capital lease obligations	<u>\$ 2,181,268</u>	<u>\$ 34,207</u>	<u>\$ (137,631)</u>	<u>\$ 2,077,844</u>	<u>\$ 207,150</u>

Interest changed to business-type activities expense was \$70,837.

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, 2015, the net position balance consisted of:

Invested in capital assets, net of related debt	
Capital assets, net of depreciation	\$ 7,464,349
Less: related debt	<u>(2,077,844)</u>
Total invested in capital assets, net of related debt	5,386,505
Invested in water rights net of amortization	<u>2,917,317</u>
Total invested in capital assets and water rights	<u>\$ 8,303,822</u>

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – NET POSITION – Continued

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, 2015, the District had restricted net position as follows:

Restricted for	
Conservation trust funds	\$ 31,579
Emergency reserve	48,446
Total restricted net position	<u><u>\$ 80,025</u></u>

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 2015, ten connections were sold leaving a total of 430 unsold connections.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 – SUBDISTRICT

In June 2015, the Board of Directors of the District adopted resolution 2015-06-01 to form Paint Brush Hills Metropolitan District Subdistrict A (Subdistrict) within the boundaries of the District. The purpose of the Subdistrict is to provide certain services, programs, and facilities and to provide fair and equitable taxation within the area. Any debt incurred or mill levy imposed by the Subdistrict will be treated separately as component unit and distinct from that of the District.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 27, 2016, the date on which the financial statements were available to be issued. During 2015 the District began the preparation of building plans and site development for a District Office and Shop Facility. In 2016 the District is seeking to obtain a lease purchase agreement to fund the building, which will be tracked through a Capital Projects Fund.

REQUIRED SUPPLEMENTAL INFORMATION

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - GENERAL FUND -
BUDGET VS. ACTUAL
YEAR ENDED DECEMBER 31, 2015**

	<u>Original and final budget</u>	<u>Actual (non-GAAP) basis</u>	<u>Variance with final budget positive (negative)</u>
Revenue			
Property taxes	\$ 329,103	\$ 329,103	\$ -
Specific ownership taxes	34,000	37,190	3,190
Investment earnings	200	454	254
Other	1,500	10,875	9,375
Total revenue	<u>364,803</u>	<u>377,622</u>	<u>12,819</u>
Administration, parks and general	<u>426,187</u>	<u>394,302</u>	<u>31,885</u>
Change in net position	<u>\$ (61,384)</u>	<u>\$ (16,680)</u>	<u>\$ 44,704</u>

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
SCHEDULE OF REVENUES AND EXPENSES -
CONSERVATION TRUST FUND - BUDGET VS. ACTUAL
YEAR ENDED DECEMBER 31, 2015**

	<u>Original and final budget</u>	<u>Actual (non-GAAP) basis</u>	<u>Variance with final budget positive (negative)</u>
Revenue			
State contributions	\$ 10,000	\$ 10,334	\$ 334
Total revenue	<u>10,000</u>	<u>10,334</u>	<u>334</u>
Conservation trust expenditure	<u>31,591</u>	<u>-</u>	<u>31,591</u>
Change in net position	<u>\$ (21,591)</u>	<u>\$ 10,334</u>	<u>\$ 31,925</u>

ADDITIONAL INFORMATION

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - WATER AND WASTEWATER FUND -
BUDGET VS. ACTUAL (NON-GAAP) BASIS
YEAR ENDED DECEMBER 31, 2015**

	<u>Original and final budget</u>	<u>Actual (non-GAAP) basis</u>	<u>Variance with final budget positive (negative)</u>
Revenue			
Base fees	\$ 262,800	\$ 261,938	\$ (862)
Wastewater services	154,870	154,107	(763)
Water services	372,150	381,079	8,929
Investment earnings	300	884	584
Tap fee	215,000	71,835	(143,165)
Other	30,800	48,055	17,255
Total revenue	<u>1,035,920</u>	<u>917,898</u>	<u>(118,022)</u>
Expenditures			
Water/wastewater	<u>610,723</u>	<u>555,966</u>	<u>54,757</u>
Capital			
Capital assets	406,000	355,828	50,172
Capital obligation principal payments	188,233	190,756	(2,523)
Capital obligation interest payment	90,276	70,837	19,439
Total capital expenditures	<u>684,509</u>	<u>617,421</u>	<u>67,088</u>
Total expenditures	<u>1,295,232</u>	<u>1,173,387</u>	<u>121,845</u>
Excess of revenues over (under) expenses	(259,312)	(255,489)	3,823
Transfers in	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
Change in net position	<u>\$ (159,312)</u>	<u>(255,489)</u>	<u>\$ (96,177)</u>
GAAP adjustments			
Capital assets		355,828	
Depreciation		(268,666)	
Amortization		(34,690)	
Capital obligation principal payments		190,756	
Total GAAP adjustments		<u>243,228</u>	
Change in net position		<u>\$ (12,261)</u>	