

***PAINT BRUSH HILLS METROPOLITAN DISTRICT***

***FINANCIAL STATEMENTS***

***WITH***

***REQUIRED SUPPLEMENTARY INFORMATION***

***AND***

***ADDITIONAL INFORMATION***

***WITH***

***INDEPENDENT AUDITORS' REPORT***

***DECEMBER 31, 2013***

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**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 the business-type activities of Paint Brush Hills Metropolitan District (District), as of and for the year ended December 31, 2013, 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.

**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, 2013, and the respective changes in financial position and, where applicable, cash flows

## INDEPENDENT AUDITORS' REPORT - CONTINUED

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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, Expenditure/Expense, And Changes in Fund Balance Budget and Actual - General Fund 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 Revenue and Expenditure - Water and Wastewater Fund – Budget and Actual 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 Expenditure - Water and Wastewater Fund - Budget and Actual is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Osborne, Parsons & Kosachuk LLP*

Colorado Springs, Colorado

July 29, 2014

***FINANCIAL STATEMENTS***

**PAINT BRUSH HILLS METROPOLITAN DISTRICT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013**

	<b>Primary Government</b>		
	<b>Governmental activities</b>	<b>Business-type activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 134,898	\$ 159,654	\$ 294,552
Cash restricted	-	250,000	250,000
Accounts receivable - service fees	-	66,990	66,990
Account receivable - property tax	330,104	-	330,104
Prepaid expense	1,300	-	1,300
Land	-	669,455	669,455
Capital assets net of accumulated depreciation	-	6,937,117	6,937,117
Water rights net of accumulated amortization	-	2,986,695	2,986,695
<b>Total assets</b>	<u>466,302</u>	<u>11,069,911</u>	<u>11,536,213</u>
<b>Liabilities</b>			
Accounts payable	14,852	18,380	33,232
Accrued interest	-	1,425	1,425
Accrued liabilities	9,113	6,183	15,296
Capital lease obligations	-	2,335,864	2,335,864
<b>Total liabilities</b>	<u>23,965</u>	<u>2,361,852</u>	<u>2,385,817</u>
<b>Deferred inflow of resources</b>	<u>330,104</u>	<u>-</u>	<u>330,104</u>
<b>Net position</b>			
Invested in capital assets, and water rights net of related debt	-	8,409,648	8,409,648
Restricted			
Debt service	-	250,000	250,000
Conservation Trust Fund	11,592	-	11,592
Nonspendable	1,300	-	1,300
Emergency reserve	34,000	-	34,000
Unrestricted	65,341	48,411	113,752
<b>Total net position</b>	<u>\$ 112,233</u>	<u>\$ 8,708,059</u>	<u>\$ 8,820,292</u>

See notes to financial statements

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2013**

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
<b>Governmental activities</b>							
Conservation Trust Fund	\$ 5,329	\$ -	\$ 11,329	\$ -	\$ 6,000	\$ -	\$ 6,000
General fund	350,829	-	-	-	(350,829)	-	(350,829)
<b>Total governmental activities</b>	<u>356,158</u>	<u>-</u>	<u>11,329</u>	<u>-</u>	<u>(344,829)</u>	<u>-</u>	<u>(344,829)</u>
<b>Business-type activities</b>							
Water and wastewater funds	977,862	763,812	-	-	-	(214,050)	(214,050)
<b>Total business-type activities</b>	<u>977,862</u>	<u>763,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(214,050)</u>	<u>(214,050)</u>
<b>Total activities</b>	<u>\$ 1,334,020</u>	<u>\$ 763,812</u>	<u>\$ 11,329</u>	<u>\$ -</u>	<u>(344,829)</u>	<u>(214,050)</u>	<u>(558,879)</u>
<b>General revenues</b>							
Property tax					340,836	-	340,836
Specific ownership tax					36,734	-	36,734
Investment income					982	218	1,200
Other income					926	9,183	10,109
Transfers					(62,676)	62,676	-
Total general revenues					<u>316,802</u>	<u>72,077</u>	<u>388,879</u>
<b>Change in net position</b>					(28,027)	(141,972)	(169,999)
<b>Net position - beginning</b>					140,260	8,850,031	8,990,291
<b>Net position - ending</b>					<u>\$ 112,233</u>	<u>\$ 8,708,059</u>	<u>\$ 8,820,292</u>

See notes to financial statements

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2013**

	<b>General fund</b>	<b>Conservation trust fund</b>	<b>Total governmental funds</b>
<b>Assets</b>			
Cash	\$ 123,306	\$ 11,592	\$ 134,898
Property tax receivable	330,104	-	330,104
Prepaid expense	1,300	-	1,300
<b>Total assets</b>	<b>\$ 454,710</b>	<b>\$ 11,592</b>	<b>\$ 466,302</b>
 <b>Liabilities</b>			
Accounts payable	\$ 14,852	\$ -	\$ 14,852
Accrued liabilities	9,113	-	9,113
<b>Total liabilities</b>	<b>23,965</b>	<b>-</b>	<b>23,965</b>
<b>Deferred inflow of resources</b>	<b>330,104</b>	<b>-</b>	<b>330,104</b>
 <b>FUND BALANCES</b>			
Unspendable	1,300	-	1,300
Restricted	-	11,592	11,592
Unrestricted	99,341	-	99,341
<b>Total fund balance</b>	<b>100,641</b>	<b>11,592</b>	<b>112,233</b>
<b>Total liabilities and fund balance</b>	<b>\$ 454,710</b>	<b>\$ 11,592</b>	<b>\$ 466,302</b>

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, 2013**

Total fund balance - governmental fund	\$ 112,233
There are no differences between the fund balance and the net position	<u>-</u>
<b>Total net position - governmental activities</b>	<b><u><u>\$ 112,233</u></u></b>

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, 2013**

	<u>Conservation trust fund</u>	<u>General fund</u>	<u>Total governmental funds</u>
<b>Revenues</b>			
State contributions	\$ 11,329	\$ -	\$ 11,329
Property taxes	-	340,836	340,836
Specific ownership taxes	-	36,734	36,734
Interest earnings	-	982	982
Miscellaneous income	-	926	926
<b>Total revenues</b>	<u>11,329</u>	<u>379,478</u>	<u>390,807</u>
<b>Expenditures</b>			
Operating expense	<u>5,329</u>	<u>350,829</u>	<u>356,158</u>
<b>Total expenditures</b>	<u>5,329</u>	<u>350,829</u>	<u>356,158</u>
<b>Net change in fund balance</b>	6,000	28,649	34,649
<b>Other financing sources (uses)</b>			
Transfers in (out)	<u>-</u>	<u>(62,676)</u>	<u>(62,676)</u>
<b>Revenues and other sources in over (under) expenditures and other uses</b>	6,000	(34,027)	(28,027)
<b>Fund balance - beginning</b>	<u>5,592</u>	<u>134,668</u>	<u>140,260</u>
<b>Fund balance - ending</b>	<u>\$ 11,592</u>	<u>\$ 100,641</u>	<u>\$ 112,233</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, 2013**

Net change in fund balance - governmental fund	\$ (28,027)
There are no differences between the governmental fund statement of revenues, expenditures and changes in fund balance to the statement of activities	<u>-</u>
<b>Change in net position - governmental activities</b>	<u><u>\$ (28,027)</u></u>

See notes to financial statements

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
DECEMBER 31, 2013**

	<u><b>Water and wastewater fund</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 159,654
Cash restricted	250,000
Accounts receivable - service fees	66,990
Land	669,455
Capital assets net of accumulated depreciation	6,937,117
Water rights net of accumulated amortization	2,986,695
<b>Total assets</b>	<u><u>\$ 11,069,911</u></u>
 <b>Liabilities</b>	
Accounts payable	18,380
Accrued interest	1,425
Accrued liabilities	6,183
Capital lease obligation	2,335,864
<b>Total liabilities</b>	<u><u>2,361,852</u></u>
 <b>Net position</b>	
Invested in capital assets and water rights net of related debt	8,409,648
Restricted	
Debt service	250,000
Emergency reserve	-
Unrestricted	48,411
<b>Total net position</b>	<u><u>\$ 8,708,059</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, 2013**

	<u>Water and wastewater fund</u>
<b>Operating revenue</b>	
Base fee	\$ 252,709
Water services	369,380
Wastewater services	135,208
Tap fees	6,516
<b>Total operating revenue</b>	<u>763,813</u>
 <b>Operating expenses</b>	
Wastewater/water	590,871
Depreciation	245,769
<b>Total operating expenses</b>	<u>836,640</u>
<b>Total operating loss</b>	<u>(72,827)</u>
 <b>Non-operating revenue (expense)</b>	
Interest earnings	218
Miscellaneous income	9,183
Interest expense	(104,533)
Amortization	(36,689)
<b>Total non-operating revenue (expense)</b>	<u>(131,821)</u>
<b>Net loss before transfers</b>	(204,648)
<b>Transfers in</b>	<u>62,676</u>
<b>Change in net position</b>	(141,972)
<b>Net position - beginning</b>	<u>8,850,031</u>
<b>Net position - ending</b>	<u><u>\$ 8,708,059</u></u>

See notes to financial statements

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2013**

	<u>Water and wastewater fund</u>
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 758,199
Cash payments to suppliers for goods and services	(573,294)
<b>Net cash provided by operating activities</b>	<u>184,905</u>
<b>Cash flows from non-capital financing activities</b>	
Advance received from other funds	57,084
<b>Net cash provided by non-capital financing activities</b>	<u>57,084</u>
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	(130,213)
Principal paid on capital lease obligation	(161,242)
Interest paid on lease obligation	(104,704)
<b>Net cash (used) by capital and related financing activities</b>	<u>(396,159)</u>
<b>Cash flows from investing activities</b>	
Interest received	218
<b>Net cash provided by investing activities</b>	<u>218</u>
<b>Net decrease in cash and cash equivalents</b>	(153,952)
<b>Cash and cash equivalents - Beginning</b>	313,606
<b>Cash and cash equivalents - Ending</b>	<u>\$ 159,654</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating loss	\$ (141,972)
Adjustments to reconcile operating income to net cash used by operating activities	
Depreciation	245,769
Amortization	36,689
Interest and transfers	41,639
Changes in assets/liabilities	
Accounts receivable	(14,797)
Accounts payable	11,394
Accrued liabilities	6,183
<b>Net cash provided by operating activities</b>	<u>\$ 184,905</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. 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

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

**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 major governmental funds:

**Conservation Trust Fund** - Activity in the Conservation Trust Fund is reflected in this set of accounts.

The District reports the following major proprietary funds:

**Enterprise Fund** - An Enterprise 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 Enterprise 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.

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 programs revenues.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

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 Enterprise Fund are charges for services. Operating expenses for enterprise 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.

**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 that is 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 taxpayer 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 Parks 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, which is normal for proprietary funds. 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, 2013 was:

	<b>Cash and cash equivalents</b>	<b>Restricted cash and cash equivalents</b>	<b>Total</b>
Business-type activities	\$ 294,552	\$ 250,000	\$ 544,552

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, 2013, the carrying amount of the District's deposits was \$541,300 and the bank balances were \$543,429. Of the bank balances, \$527,519 was covered by federal depository insurance and \$15,910 falls under the provisions of the Colorado Public Deposit Protection Act, 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, 2013, consisted of the following:

User fees	\$ 121,990
Less allowance for doubtful accounts	<u>(55,000)</u>
<b>Total</b>	<u><u>\$ 66,990</u></u>

**NOTE 4 – CAPITAL ASSETS**

Business- type capital asset activity for the year ended December 31, 2013 was:

	<u>Balance 1/1/13</u>	<u>Additions</u>	<u>Transfer</u>	<u>Deletions</u>	<u>Balance 12/31/13</u>
<b>Capital assets not being depreciated</b>					
Land	\$ 669,455	\$ -	\$ -	\$ -	\$ 669,455
<b>Total capital assets not being depreciated</b>	<u>669,455</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>669,455</u>
<b>Capital assets being depreciated</b>					
Plant	9,054,992	121,813	(11)	-	9,176,794
Parks	311,067	-	11	-	311,078
Other	31,101	8,400	-	-	39,501
<b>Total capital assets being depreciated</b>	<u>9,397,160</u>	<u>130,213</u>	<u>-</u>	<u>-</u>	<u>9,527,373</u>
<b>Less accumulated depreciation</b>					
Plant	(2,250,769)	(234,531)	-	-	(2,485,300)
Parks	(63,236)	(11,111)	-	-	(74,347)
Other	(30,482)	(127)	-	-	(30,609)
<b>Total accumulated depre- ciation</b>	<u>(2,344,487)</u>	<u>(245,769)</u>	<u>-</u>	<u>-</u>	<u>(2,590,256)</u>
<b>Total capital assets being depreciated - net</b>	7,052,673	(115,556)	-	-	6,937,117
<b>Total capital assets - net</b>	<u><u>\$ 7,722,128</u></u>	<u><u>\$ (115,556)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,606,572</u></u>

Depreciation charged to business-type activities expense was \$245,769.

**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, 2013, is as follows:

	<u>Balance 1/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2013</u>
<b>Business-type activities</b>				
Water rights				
Original water rights (a)	\$ 3,574,200	\$ -	\$ -	\$ 3,574,200
Denver and Dawson (a)	713,400	-	-	713,400
Meridian (b)	180,000	-	-	180,000
<b>Total water rights</b>	<u>4,467,600</u>	<u>-</u>	<u>-</u>	<u>4,467,600</u>
Less accumulated amortization				
Original water rights (a)	(1,387,144)	(29,555)	-	(1,416,699)
Denver and Dawson (a)	(57,072)	(7,134)	-	(64,206)
Meridian (b)	-	-	-	-
<b>Total accumulated amortization</b>	<u>(1,444,216)</u>	<u>(36,689)</u>	<u>-</u>	<u>(1,480,905)</u>
<b>Total water rights, net</b>	<u>\$ 3,023,384</u>	<u>\$ (36,689)</u>	<u>\$ -</u>	<u>\$ 2,986,695</u>

(a) Amortized over an estimated useful life of 100 years

(b) Considered to be inexhaustible and are not being amortized

Amortization changed to business-type activities expense was \$36,689.

**NOTE 6 – DEFERRED INFLOW AND OUTFLOW OF RESOURCES**

At December 31, 2013, deferred inflow of resources in the wastewater/water fund consists of deferred property tax revenue.

**NOTE 7 – CAPITAL LEASE OBLIGATION**

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

<u>Years ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 166,794	\$ 99,152	\$ 265,946
2015	175,934	90,012	265,946
2016	183,427	82,518	265,945
2017	191,728	74,217	265,945
2018	200,155	65,790	265,945
Thereafter	1,417,826	196,058	1,613,884
	<u>\$ 2,335,864</u>	<u>\$ 607,747</u>	<u>\$ 2,943,611</u>

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

**NOTE 7 – CAPITAL LEASE OBLIGATION – Continued**

Changes in capital lease obligations consist of:

	<u>Balance 1/1/2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/13</u>	<u>Due within one year</u>
Business-type activities					
Capital lease obligations	\$ 2,497,030	\$ -	\$ (161,166)	\$ 2,335,864	\$ 166,794

**NOTE 8 – NET POSITION**

The District has net position consisting of three components:

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

Invested in capital assets, net of related debt consists of capital assets 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, 2013, the District had invested in capital assets, net of related debt as follows:

Invested in capital assets, net of related debt	
Capital assets, net of depreciation	\$ 7,722,128
Less: related debt	<u>(2,335,864)</u>
Total invested in capital assets, net of related debt	5,386,264
Invested in water rights net of amortization	<u>3,023,384</u>
Total invested in capital assets and water rights	<u>\$ 8,409,648</u>

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, 2013, the District had restricted net position as follows:

<b>Restricted for</b>	
Debt service	\$ 250,000
Conservation trust funds	11,592
Nonspendable	1,300
Emergency reserve	34,000
<b>Total restricted net position</b>	<u>\$ 296,892</u>

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

**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 – RELATED PARTIES**

During 2013, the District rented administrative office space from the District Manager at a cost of \$650.

**NOTE 12 – 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 2013, two connections were sold leaving a total of 451 unsold connections.

**NOTE 13 – CONTINGENCIES**

The District has contracted with outside parties for a review of District compliance with the complex TABOR requirements.

**NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 29, 2014, the date on which the financial statements were available to be issued.

***REQUIRED SUPPLEMENTAL INFORMATION***

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
STATEMENT OF REVENUES AND EXPENSES - GENERAL FUND -  
BUDGET VS. ACTUAL (NON-GAAP) BASIS  
YEAR ENDED DECEMBER 31, 2013**

	<u>Original and final budget</u>	<u>Actual (non-GAAP) basis</u>	<u>Variance with final budget positive (negative)</u>
<b>Revenue</b>			
Property taxes	\$ 332,480	\$ 340,836	\$ 8,356
Specific ownership taxes	30,000	36,734	6,734
State contributions	10,000	11,328	1,328
Grants	25,000	-	(25,000)
Investment earnings	500	982	482
Other	1,500	927	(573)
<b>Total revenue</b>	<u>399,480</u>	<u>390,807</u>	<u>(8,673)</u>
<b>Administration, parks and general</b>	<u>269,300</u>	<u>356,158</u>	<u>(86,858)</u>
<b>Excess of revenues over (under) expenses</b>	130,180	34,649	(95,531)
<b>Transfers out</b>	<u>-</u>	<u>(62,676)</u>	<u>(62,676)</u>
<b>Change in net position</b>	<u>\$ 130,180</u>	<u>\$ (28,027)</u>	<u>\$ (158,207)</u>

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, 2013**

	<b>Original and final budget</b>	<b>Actual (non-GAAP) basis</b>	<b>Variance with final budget positive (negative)</b>
<b>Revenue</b>			
Base fees	\$ 252,000	\$ 252,709	\$ 709
Wastewater services	150,646	135,208	(15,438)
Water services	388,900	369,380	(19,520)
Investment earnings	-	218	218
Tap fee	65,150	6,516	(58,634)
Other	9,700	9,183	(517)
<b>Total revenue</b>	<u>866,396</u>	<u>773,214</u>	<u>(93,182)</u>
<b>Expenditures</b>			
Water/wastewater	619,761	590,871	28,890
<b>Capital</b>			
Capital assets	188,850	130,213	58,637
Capital obligation principal payments	161,616	161,166	450
Capital obligation interest payment	104,330	104,533	(203)
<b>Total capital expenditures</b>	<u>454,796</u>	<u>395,912</u>	<u>58,884</u>
<b>Total expenditures</b>	<u>1,074,557</u>	<u>986,783</u>	<u>87,774</u>
<b>Excess of revenues over (under) expenses</b>	(208,161)	(213,569)	(5,408)
<b>Transfers in</b>	-	62,676	62,676
<b>Change in net position</b>	<u>\$ (208,161)</u>	<u>(150,893)</u>	<u>\$ 57,268</u>
<b>GAAP adjustments</b>			
Capital assets		130,213	
Depreciation and amortization		(245,769)	
Amortization		(36,689)	
Capital obligation principal payments		161,166	
<b>Total GAAP adjustments</b>		<u>8,921</u>	
<b>Change in net position</b>		<u>\$ (141,972)</u>	