PAINT BRUSH HILLS METROPOLITAN DISTRICT

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2012

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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, each major fund, and aggregate remaining fund information of Paint Brush Hills Metropolitan District (District) as of and for the year ended December 31, 2012, 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

The District's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund balance of the District as of December 31, 2012, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require 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.

Osborne, Parsons & Nosacka LLP

Colorado Springs, Colorado
October 15, 2013

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government		
	Governmental activities	Business-type activities	Total
Assets			
Cash and cash equivalents	$ -	$ 448,275	$ 448,275
Cash restricted	-	250,000	250,000
Accounts receivable - service fees	-	52,193	52,193
Account receivable - property tax	-	332,480	332,480
Land	-	669,455	669,455
Capital assets net of accumulated depreciation	-	7,052,673	7,052,673
Water rights net of accumulated amortization	-	3,023,384	3,023,384
Internal balance	5,592	(5,592)	-
Total assets	5,592	11,822,868	11,828,460
Liabilities			
Accounts payable	-	6,986	6,986
Accrued interest	-	1,596	1,596
Capital lease obligations	-	2,497,106	2,497,106
Total liabilities	-	2,505,688	2,505,688
Deferred inflow of resources	-	332,480	332,480
Net position			
Invested in capital assets, water rights net of of related debt	-	8,248,406	8,248,406
Restricted			
Debt service	-	250,000	250,000
Conservation Trust Fund	5,592	-	5,592
Emergency reserve	-	34,000	34,000
Unrestricted	-	452,294	452,294
Total net position	$ 5,592	$ 8,984,700	$ 8,990,292

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

		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	$ 10,438	$ -	$ 10,310	$ -	$ (128)	$ -	$ (128)
Total governmental activities	10,438	-	10,310	-	(128)	-	(128)
Business-type activities							
Water and wastewater funds	1,110,439	899,667	-	-	-	(210,772)	(210,772)
Total business-type activities	1,110,439	899,667	-	-	-	(210,772)	(210,772)
Total activities	$ 1,120,877	$ 899,667	$ 10,310	$ -	(128)	(210,772)	(210,900)
	General revenues						
	Property tax				-	328,259	328,259
	Specific ownership tax				-	31,756	31,756
	Investment income				-	1,308	1,308
	Other income				-	25,542	25,542
	Total general revenues				-	386,865	386,865
	Change in net position				(128)	176,093	175,965
	Net position - beginning				5,720	8,808,607	8,814,327
	Net position - ending				$ 5,592	$ 8,984,700	$ 8,990,292

See notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2012

	Conservation trust fund	Total governmental funds
ASSETS		
Internal balances	$ 5,592	$ 5,592
Total assets	$ 5,592	$ 5,592
LIABILITIES AND FUND BALANCES		
Fund balance restricted	$ 5,592	$ 5,592
Total liabilities and fund balance	$ 5,592	$ 5,592

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, 2012

Total fund balance - governmental fund	$	5,592
There are no differences between the fund balance and the net position		-
Total net position - governmental activities	$	5,592

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, 2012

	Conservation trust fund	Total governmental funds
Revenues		
State contributions	$ 10,310	$ 10,310
Total revenues	10,310	10,310
Expenditures		
Parks general maintenance	10,438	10,438
Total expenditures	10,438	10,438
Net change in fund balance	(128)	(128)
Fund balance - beginning	5,720	5,720
Fund balance - ending	$ 5,592	$ 5,592

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, 2012

Net change in fund balance - governmental fund	$	(128)
There are no differences between the government fund and the governmental fund		-
Change in net position - governmental activities	$	(128)

See notes to financial statements

PAINT BRUSH HILLS METROPOLITIAN DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2012

	Water and wastewater fund
Assets	
Cash and cash equivalents	$ 448,275
Cash restricted	250,000
Accounts receivable - service fees	52,193
Accounts receivable - property tax	332,480
Land	669,455
Capital assets net of accumulated depreciation	7,052,673
Water rights net of accumulated amortization	3,023,384
Internal balance	(5,592)
Total assets	$ 11,822,868
Liabilities	
Accounts payable	6,986
Accrued interest	1,596
Capital lease obligation	2,497,106
Total liabilities	2,505,688
Deferred inflow of resources	332,480
Net position	
Invested in capital assets and water rights net of related debt	8,248,406
Restricted	
Debt service	250,000
Emergency reserve	34,000
Unrestricted	452,294
Total net position	$ 8,984,700

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, 2012

	Water and wastewater fund
Operating revenue	
Base fee	$ 235,110
Wastewater services	152,342
Water services	512,215
Total operating revenue	899,667
Operating expenses	
Wastewater/water	407,975
Administration, parks and general	236,279
Depreciation	237,926
Total operating expenses	882,180
Total operating income	17,487
Non-operating revenue (expense)	
Property taxes	328,259
Specific ownership taxes	31,756
Interest earnings	1,308
Miscellaneous income	25,542
Interest expense	(117,031)
Amortization expense	(56,228)
Bad debts	(55,000)
Total non-operating revenue (expense)	158,606
Change in net position	176,093
Net position - beginning	8,808,607
Net position - ending	$ 8,984,700

see notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES AND EXPENSES WATER AND WASTEWATER FUND
BUDGET VS. ACTUAL (NON-GAAP) BASIS
YEAR ENDED DECEMBER 31, 2012

	Original and final budget	Actual (non-GAAP) basis	Variance with final budget positive (negative)
Revenue			
Base fees	$ 252,000	$ 235,110	$ (16,890)
Wastewater services	148,606	152,342	3,736
Water services	384,340	512,215	127,875
Inclusion and inspection fees	22,600	4,054	(18,546)
Property tax	329,312	328,259	(1,053)
Investment earnings	2,000	1,308	(692)
Specific ownership tax	30,000	31,756	1,756
Tap fee	6,205	12,411	6,206
Other	3,600	9,077	5,477
Total revenue	1,178,663	1,286,532	107,869
Expenditures			
Wastewater/water			
Analytical, chemicals, equipment	20,000	15,144	4,856
Billing, software, meters	23,000	26,971	(3,971)
Bulk water purchases	32,800	35,536	(2,736)
Collection system	20,000	29,442	(9,442)
Pumphouse and well maintenance	22,000	43,065	(21,065)
Roadway and waterline repairs	10,000	5,665	4,335
Storage tank maintenance	140,000	-	140,000
Utilities	135,000	149,470	(14,470)
Vehicle fuel and maintenance	16,000	10,025	5,975
Wastewater operations	43,850	18,958	24,892
Water operations	84,800	73,699	11,101
Total wastewater/water	547,450	407,975	139,475

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see notes to financial statements

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	Original and final budget	Actual (non-GAAP) basis	Variance with final budget positive (negative)
Expenditures - continued			
Administration, parks and general			
Audit & accounting	5,700	5,700	-
Bank charges	1,500	325	1,175
Board meeting & elections	8,000	7,734	266
Dues & subscriptions	2,100	1,343	757
General engineering	10,000	-	10,000
Legal counsel	60,000	40,402	19,598
Management, bookkeeping & general office	87,400	62,854	24,546
Office rent	-	8,374	(8,374)
Tap fees	-	4,000	(4,000)
Office equipment, supplies & phone	28,580	18,698	9,882
Parks maintenance & repair	42,000	79,970	(37,970)
Property and liability insurance	18,500	6,879	11,621
Total administration, parks and general	263,780	236,279	27,501
Capital			
Capital assets	299,850	202,024	97,826
Capital obligation principal payments	149,475	149,202	273
Capital obligation interest payment	116,475	117,031	(556)
Total capital expenditures	565,800	468,257	97,543
Total expenditures	1,377,030	1,112,511	264,519
Excess of revenues over (under) expenses	$ (198,367)	174,021	$ 372,388
GAAP adjustments			
Capital assets		202,024	
Depreciation		(237,926)	
Amortization of loan issuance costs		(19,539)	
Amortization of water rights		(36,689)	
Capital obligation principal payments		149,202	
Allowance for doubtful accounts		(55,000)	
Total GAAP adjustments		2,072	
Change in net position		$ 176,093	

see notes to financial statements

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2012

	Water and wastewater fund
Cash flows from operating activities	
Cash received from customers	$ 924,359
Cash payments to suppliers for goods and services	(425,380)
Cash payments to staff for services	(221,036)
Net cash provided by operating activities	277,943
Cash flows from non-capital financing activities	
Property taxes	328,259
Specific ownership taxes	31,756
Advance made to other funds	(127)
Net cash provided by non-capital financing activities	359,888
Cash flows from capital and related financing activities	
Purchase of capital assets	(202,024)
Principal paid on capital lease obligation	(149,202)
Interest paid on lease obligation	(116,743)
Net cash (used) by capital and related financing activities	(467,969)
Cash flows from investing activities	
Interest received	1,308
Net cash provided by investing activities	1,308
Net increase in cash and cash equivalents	171,170
Cash and cash equivalents - January 1	277,105
Cash and cash equivalents - December 31	$ 448,275
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 17,487
Adjustments to reconcile operating income to net cash used by operating activities	
Depreciation	237,926
Miscellaneous income	25,542
Changes in assets/liabilities	
Accounts receivable	(850)
Accounts payable	(2,162)
Net cash provided by operating activities	$ 277,943

See 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 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 1986 and is governed pursuant to provisions of the Colorado Special District Act. The District operates under a service plan approved by El Paso County. The District's service area is located within the unincorporated portion of El Paso County. The District provides water, wastewater and parks services to residents of the District.

The District was established to coordinate the acquisition and financing of public improvements within the District boundaries. After construction of the public improvements was completed, such 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 has no employees and all operations and administrative functions are contracted outside parties.

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 official's 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, which 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

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 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 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.

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 programs 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 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.

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.

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 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.

New accounting pronouncements - During the year ended December 31, 2012, the District implemented new GASB standards as follows:

GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989, GASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of this standard had no material effect on the District's financial reporting as of and for the year ended December 31, 2012.

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources. Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This effect of this standard essentially renamed the government-wide statement of net assets and the proprietary funds' statement of net assets to the statement of net position. In addition, the proprietary funds' statement of revenues, expenses and changes in fund net assets was also renamed to the statement of revenues, expenses and changes in fund net position.

GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement, which is a companion standard to GASB 63, is to specifically identify certain items that were previously reported as assets or liabilities and now report those items as deferred outflows of resources or deferred inflows of resources. The effective date of this statement was for the year ended December 31, 2013, but the District elected to early implement this standard to correspond to the implementation date for GASB 63. The effect of this statement for the District was to reclassify from deferred revenue to a deferred inflow of resources the 2012 property taxes that were levied for 2013.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Budget information - The District follows these procedures in establishing the budgetary data reflected in the financial statements:

A. In the fall, the District Manager 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. Public hearings are conducted by the District to obtain taxpayer comments.

C. Prior to December 15, the budget is legally approved.

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

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 generally accepted accounting principles (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.

NOTE 1 – DEPOSITS

Reconciliation of cash and cash equivalents to the government-wide financial statements at December 31, 2012:

	Cash and cash equivalents	Restricted cash and cash equivalents	Total
Business-type activities	$ 448,275	$ 250,000	$ 698,275

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. 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, 2012, the carrying amount of the District's deposits was $698,275 and the bank balances were $734,347. Of the bank balances, $501,155 was covered by federal depository insurance and $233,192 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 fund;
- Guaranteed investment contracts.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2012, consisted of the following:

User fees	$ 107,193
Less allowance for doubtful accounts	(55,000)
Total	$ 52,193

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Internal balances - Inter-fund receivable and payables are created in conjunction with the District's pooled cash, and are paid back within a reasonable time. As of December 31, 2012, internal balances receivable and payables were:

	Due from other funds	Due to other funds
Conservation Trust Fund	$ 5,592	$ -
Water & wastewater fund	-	5,592
Total	$ 5,592	$ 5,592

NOTE 5 – CAPITAL ASSETS

Business- type capital asset activity for the year ended December 31, 2012 was:

	Balance 1/1/12	Additions	Transfer	Deletions	Balance 12/31/12
Capital assets not being depreciated					
Land	$ 669,455	$ -	$ -	$ -	$ 669,455
Construction in progress	85,057	-	(85,057)	-	-
Total capital assets not being depreciated	754,512	-	(85,057)	-	669,455
Capital assets being depreciated					
Plant	8,856,745	198,247	-	-	9,054,992
Parks	222,232	3,777	85,057	-	311,066
Other	31,102	-	-	-	31,102
Total capital assets being depreciated	9,110,079	202,024	85,057	-	9,397,160
Less accumulated depreciation					
Plant	(2,024,080)	(226,689)	-	-	(2,250,769)
Parks	(52,124)	(11,112)	-	-	(63,236)
Other	(30,357)	(125)	-	-	(30,482)
Total accumulated depreciation	(2,106,561)	(237,926)	-	-	(2,344,487)
Total capital assets being depreciated - net	7,003,518	(35,902)	85,057	-	7,052,673
Total capital assets - net	$ 7,758,030	$ (35,902)	$ -	$ -	$ 7,722,128

Depreciation charged to business-type activities expense was $237,926.

NOTE 6 – WATER RIGHTS

An analysis of water rights activity for the year ended December 31, 2012, is as follows:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Business-type activities				
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
Total water rights	4,467,600	-	-	4,467,600
Less accumulated amortization				
Original water rights (a)	(1,357,589)	(29,555)	-	(1,387,144)
Denver and Dawson (a)	(49,938)	(7,134)	-	(57,072)
Meridian (b)	-	-	-	-
Total accumulated amortization	(1,407,527)	(36,689)	-	(1,444,216)
				-
Total water rights, net	$ 3,060,073	$ (36,689)	$ -	$ 3,023,384

(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 7 – DEFERRED INFLOW AND OUTFLOW OF RESOURCES

At December 31, 2012, deferred inflow of resources in the wastewater/water fund consists of deferred property tax revenue.

NOTE 8 – CAPITAL LEASE OBLIGATION

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

Years ended December 31,	Principal	Interest	Total
2013	$ 159,433	$ 106,512	$ 265,945
2014	168,527	97,418	265,945
2015	175,934	90,012	265,946
2016	183,427	82,518	265,945
2017	191,728	74,217	265,945
Thereafter	1,618,057	261,849	1,879,906
	$ 2,497,106	$ 712,526	$ 3,209,632

NOTE 8 – CAPITAL LEASE OBLIGATION – Continued

Changes in capital lease obligations consist of:

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/12	Due within one year
Business-type activities					
Capital lease obligations	$ 2,646,308	$ -	$ (149,202)	$ 2,497,106	$ 159,433

The capital lease obligation calls for the District to maintain certain levels of insurance coverage on assets covered by the lease obligation. The District did not maintain the required level of insurance coverage during the year ended December 31, 2012.

NOTE 9 – 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, 2012, 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	(2,497,106)
Total invested in capital assets, net of related debt	5,225,022
Invested in water rights net of amortization	3,023,384
Total invested in capital assets and water rights	$ 8,248,406

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, 2012, the District had restricted net position as follows:

Restricted for	
Debt service	$ 250,000
Emergency reserve	34,000
Conservation trust funds	5,592
Total restricted net position	$ 289,592

NOTE 10 – RISK MANAGEMENT

The District is 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 11 – 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 12 – RELATED PARTIES

During 2012, the District rented administrative office space from the district manager at a cost of $7,800.

NOTE 13 – 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 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 2012, two connections were sold leaving a total of 453 unsold connections.

NOTE 14 – CONTINGENCIES

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

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 15, 2013, the date on which the financial statements were available to be issued.