

**PAINT BRUSH HILLS
METROPOLITAN DISTRICT
El Paso County, Colorado**

**FINANCIAL STATEMENTS
DECEMBER 31, 2016**



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Paint Brush Hills Metropolitan District
Falcon, 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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Conservation Trust Fund, and Subdistrict A Fund for

INDEPENDENT AUDITORS' REPORT - CONTINUED

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

Other matters

Supplemental Information

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – Capital Projects Fund and the Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis) - Enterprise 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.

Other 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 Summary of Assessed Valuation, Mill Levy and Property Taxes Collected is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Summary of Assessed Valuation, Mill Levy and Property Taxes Collected 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 Summary of Assessed Valuation, Mill Levy and Property Taxes Collected is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Osborne, Parsons & Nease LLC

Colorado Springs, Colorado
September 21, 2017

BASIC FINANCIAL STATEMENTS

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 213,498	\$ 618,477	\$ 831,975
Cash and checks on hand	7,496	-	7,496
Accounts receivable	2,724	60,333	63,057
Due from County Treasurer	3,642	-	3,642
Prepaid expenses	34,680	-	34,680
Lease proceeds receivable	-	715,192	715,192
Property taxes receivable	319,388	-	319,388
Capital assets not being depreciated/amortized	-	1,189,276	1,189,276
Capital assets being depreciated/amortized, net of accumulated depreciation/amortization	190,069	8,969,913	9,159,982
Total assets	<u>771,497</u>	<u>11,553,191</u>	<u>12,324,688</u>
LIABILITIES			
Accounts and retainage payable	105,408	17,756	123,164
Wages and payroll taxes payable	1,408	3,404	4,812
Paid time off payable	4,030	6,938	10,968
Interest payable	-	7,490	7,490
Long-term obligations:			-
Due within one year	-	227,652	227,652
Due in more than one year	-	2,467,787	2,467,787
Total liabilities	<u>110,846</u>	<u>2,731,027</u>	<u>2,841,873</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	319,388	-	319,388
Total deferred inflows of resources	<u>319,388</u>	<u>-</u>	<u>319,388</u>
NET POSITION			
Net investment in capital assets	190,069	8,178,942	8,369,011
Restricted for:			-
Emergencies	12,457	-	12,457
Parks and recreation	43,874	-	43,874
Unrestricted	94,863	643,222	738,085
Total net position	<u>\$ 341,263</u>	<u>\$ 8,822,164</u>	<u>\$ 9,163,427</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 369,711	\$ -	\$ 5,858	\$ -	\$ (363,853)	\$ -	\$ (363,853)
Parks and recreation	58,733	-	-	12,262	(46,471)	-	(46,471)
Stormwater	14,916	-	-	-	(14,916)	-	(14,916)
	<u>443,360</u>	<u>-</u>	<u>5,858</u>	<u>12,262</u>	<u>(425,240)</u>	<u>-</u>	<u>(425,240)</u>
Business-type activities:							
Water and sewer operations	1,147,128	935,891	-	557,117	-	345,880	345,880
	<u>1,147,128</u>	<u>935,891</u>	<u>-</u>	<u>557,117</u>	<u>-</u>	<u>345,880</u>	<u>345,880</u>
Total	<u>\$ 1,590,488</u>	<u>\$ 935,891</u>	<u>\$ 5,858</u>	<u>\$ 569,379</u>	<u>(425,240)</u>	<u>345,880</u>	<u>(79,360)</u>
General revenues:							
Taxes:							
Property taxes							
					364,957	-	364,957
Specific ownership taxes							
					41,944	-	41,944
Net investment earnings							
					360	1,778	2,138
Miscellaneous							
					8,291	-	8,291
Total general revenues							
					<u>415,552</u>	<u>1,778</u>	<u>417,330</u>
Change in net position							
					(9,688)	347,658	337,970
Net position - Beginning of year (Restated)							
					350,951	8,474,506	8,825,457
Net position - End of year							
					<u>\$ 341,263</u>	<u>\$ 8,822,164</u>	<u>\$ 9,163,427</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016**

	<u>General Fund</u>	<u>Conservation Trust Fund</u>	<u>Subdistrict A Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 169,624	\$ 43,874	\$ -	\$ 213,498
Cash and checks on hand	7,496	-	-	7,496
Due from other fund	5,139	-	-	5,139
Accounts receivable	2,724	-	-	2,724
Due from County Treasurer	3,642	-	-	3,642
Prepaid expenditures	34,680	-	-	34,680
Property tax receivable	319,388	-	-	319,388
TOTAL ASSETS	<u>\$ 542,693</u>	<u>\$ 43,874</u>	<u>\$ -</u>	<u>\$ 586,567</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable	\$ 105,408	\$ -	\$ -	\$ 105,408
Wages and payroll taxes payable	1,408	-	-	1,408
Due to other fund	-	-	5,139	5,139
Paid time off payable	4,030	-	-	4,030
Total Liabilities	<u>110,846</u>	<u>-</u>	<u>5,139</u>	<u>115,985</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred property tax revenues	319,388	-	-	319,388
Total Deferred Inflows of Resources	<u>319,388</u>	<u>-</u>	<u>-</u>	<u>319,388</u>
FUND BALANCES (DEFICITS)				
Nonspendable:				
Prepaid expenditures	34,680	-	-	34,680
Spendable:				
Restricted for:				
Emergencies	12,457	-	-	12,457
Parks and recreation	-	43,874	-	43,874
Unassigned	65,322	-	(5,139)	60,183
Total Fund Balances	<u>112,459</u>	<u>43,874</u>	<u>(5,139)</u>	<u>151,194</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)	<u>\$ 542,693</u>	<u>\$ 43,874</u>	<u>\$ -</u>	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Some assets used in governmental activities are not financial resources and, therefore, are not reported in the Balance Sheet - Governmental Funds.

Capital assets, net of accumulated depreciation	190,069
Net position of governmental activities	<u>\$ 341,263</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS) - GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	General Fund	Conservation Trust Fund	Subdistrict A Fund	Total Governmental Funds
REVENUES				
Property taxes	\$ 364,957	\$ -	\$ -	\$ 364,957
Specific ownership taxes	41,944	-	-	41,944
Conservation Trust Fund	-	12,262	-	12,262
Net investment income	327	33	-	360
Subdistrict costs reimbursements	-	-	5,858	5,858
Miscellaneous	8,291	-	-	8,291
Total revenues	<u>415,519</u>	<u>12,295</u>	<u>5,858</u>	<u>433,672</u>
EXPENDITURES				
Current:				
Audit	7,237	-	-	7,237
Director's fees	4,500	-	-	4,500
District manager	64,782	-	-	64,782
Employee wages	9,600	-	-	9,600
Payroll taxes	6,239	-	-	6,239
457b plan contributions	1,500	-	-	1,500
Payroll processing	2,952	-	-	2,952
Health insurance	12,145	-	-	12,145
District manager phone allowance	621	-	-	621
Election/Board meetings	38,156	-	-	38,156
Insurance	30,376	-	43	30,419
Legal	95,504	-	9,572	105,076
Management	158	-	-	158
Miscellaneous	11,957	-	1,382	13,339
Bank charges	595	-	-	595
Dues/subscriptions/conferences	2,154	-	-	2,154
Office rent and expense	17,647	-	-	17,647
Office utilities	2,685	-	-	2,685
Office equipment	12,146	-	-	12,146
Office supplies	5,969	-	-	5,969
Postage	1,560	-	-	1,560
Telephone	2,521	-	-	2,521
Accounting	22,240	-	-	22,240
Treasurer's fees	5,470	-	-	5,470
Parks and property grounds maintenance	26,273	-	-	26,273
Parks maintenance and repairs	6,634	-	-	6,634
Parks and property landscaping	9,801	-	-	9,801
Park and recreation facility improvements	471	-	-	471
Storm water facilities maintenance	14,916	-	-	14,916
Total expenditures	<u>416,809</u>	<u>-</u>	<u>10,997</u>	<u>427,806</u>
NET CHANGE IN FUND BALANCES	<u>(1,290)</u>	<u>12,295</u>	<u>(5,139)</u>	<u>5,866</u>
FUND BALANCES - BEGINNING OF YEAR	<u>113,749</u>	<u>31,579</u>	<u>-</u>	<u>145,328</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ 112,459</u>	<u>\$ 43,874</u>	<u>\$ (5,139)</u>	<u>\$ 151,194</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (DEFICITS) OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

A reconciliation reflecting the differences between the governmental funds net change in fund balances and change in net position reported for governmental activities in the Statement of Activities as follows:

Net change in fund balances - Total governmental funds	<u>\$</u>	<u>5,866</u>
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation		<u>(15,554)</u>
		<u>(15,554)</u>
Change in net position - Governmental activities	<u>\$</u>	<u>(9,688)</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2016

	<u>Original Adopted Budget</u>	<u>Final Adopted Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Property taxes	\$ 364,517	\$ 364,517	\$ 364,957	\$ 440
Specific ownership taxes	39,000	40,101	41,944	1,843
Net investment income	350	355	327	(28)
Reimbursement Sub District expenditures	-	18,332	-	(18,332)
Insurance reimbursement	-	30,000	-	(30,000)
Miscellaneous	-	249	8,291	8,042
Total Revenues	<u>403,867</u>	<u>453,554</u>	<u>415,519</u>	<u>(38,035)</u>
EXPENDITURES				
Current:				
Audit	5,600	5,600	7,237	(1,637)
Director's fees	8,000	4,400	4,500	(100)
District manager	65,000	60,000	64,782	(4,782)
Employee wages	33,816	9,600	9,600	-
Payroll taxes	7,559	6,001	6,239	(238)
457b plan contributions	2,886	3,000	1,500	1,500
Payroll processing	2,410	3,682	2,952	730
Health insurance	28,992	14,529	12,145	2,384
District manager phone allowance	780	616	621	(5)
Election/Board meetings	6,000	41,024	38,156	2,868
Insurance	30,000	30,334	30,376	(42)
Legal	50,000	95,063	95,504	(441)
Management	-	158	158	-
Miscellaneous	3,000	16,460	11,957	4,503
Bank charges	1,000	660	595	65
Dues/subscriptions/conferences	4,000	2,006	2,154	(148)
Office rent and expense	18,000	20,300	17,647	2,653
Office utilities	2,200	2,820	2,685	135
Office equipment	7,500	10,081	12,146	(2,065)
Office supplies	7,500	6,875	5,969	906
Postage	750	2,542	1,560	982
Telephone	2,000	2,976	2,521	455
Accounting	30,345	25,320	22,240	3,080
Treasurer's fees	5,468	5,468	5,470	(2)
Parks and property grounds maintenance	27,000	26,828	26,273	555
Parks maintenance and repairs	2,000	7,354	6,634	720
Parks and property landscaping	9,000	13,316	9,801	3,515
Park and recreation facility improvements	25,000	-	471	(471)
Storm water facilities maintenance	10,000	34,796	14,916	19,880
Contingency/emergency reserve	12,116	-	-	-
Total Expenditures	<u>407,922</u>	<u>451,809</u>	<u>416,809</u>	<u>35,000</u>
NET CHANGE IN FUND BALANCE	(4,055)	1,745	(1,290)	(3,035)
FUND BALANCE - BEGINNING OR YEAR	172,484	113,749	113,749	-
FUND BALANCE - END OF YEAR	<u>\$ 168,429</u>	<u>\$ 115,494</u>	<u>\$ 112,459</u>	<u>\$ (3,035)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CONSERVATION TRUST FUND
Year Ended December 31, 2016**

	Original and Final Adopted Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Conservation Trust Fund	\$ 10,250	\$ 12,262	\$ 2,012
Net investment income	-	33	33
Total Revenues	<u>10,250</u>	<u>12,295</u>	<u>2,045</u>
EXPENDITURES			
Parks and recreation	<u>41,722</u>	-	<u>41,722</u>
Total Expenditures	<u>41,722</u>	<u>-</u>	<u>41,722</u>
NET CHANGE IN FUND BALANCE	(31,472)	12,295	43,767
FUND BALANCE - BEGINNING OF YEAR	<u>4,800</u>	<u>31,579</u>	<u>26,779</u>
FUND BALANCE - END OF YEAR	<u>\$ (26,672)</u>	<u>\$ 43,874</u>	<u>\$ 70,546</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL
SUBDISTRICT A FUND
Year Ended December 31, 2016**

	Original and Final Adopted Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Subdistrict costs reimbursements	\$ 25,000	\$ 5,858	\$ (19,142)
Total Revenues	<u>25,000</u>	<u>5,858</u>	<u>(19,142)</u>
EXPENDITURES			
Accounting	2,500	-	2,500
Legal	21,500	9,572	11,928
Insurance	-	43	(43)
Miscellaneous	1,000	1,382	(382)
Total Expenditures	<u>25,000</u>	<u>10,997</u>	<u>14,003</u>
NET CHANGE IN FUND BALANCE	-	(5,139)	(5,139)
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ -</u>	<u>\$ (5,139)</u>	<u>\$ (5,139)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2016**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	618,477
Lease proceeds receivable		715,192
Accounts receivable (net of allowance of \$2,215)		60,333
Total current assets		1,394,002

CAPITAL ASSETS

Capital assets not being depreciated/amortized:

Land		669,455
Water rights - inexhaustible		180,000
Construction in progress		339,821
		1,189,276

Capital assets being depreciated/amortized:

Plant		9,423,712
Vehicles		104,094
Office equipment and other		6,380
Other		9,012
Water rights		4,287,600
		13,830,798

Less accumulated depreciation and amortization

(4,860,885)

8,969,913

Total capital assets, net

TOTAL ASSETS \$ 11,553,191

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Retainage payable	\$	17,756
Wages and payroll taxes payable		3,404
Paid time off payable		6,938
Interest payable on capital lease obligations		7,490
Current portion of capital lease obligations		227,652
Total current liabilities		263,240

NONCURRENT LIABILITIES

Noncurrent portion of capital lease obligations		2,467,787
Total noncurrent liabilities		2,467,787

NET POSITION

Net investment in capital assets		8,178,942
Unrestricted		643,222
Total net position		8,822,164

TOTAL LIABILITIES AND NET POSITION \$ 11,553,191

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended December 31, 2016**

OPERATING REVENUE	
Base fees	\$ 268,958
Water service fees	495,810
Wastewater service fees	111,453
Other fees	59,670
Total operating revenue	935,891
 OPERATING EXPENSES	
Operations	616,405
Depreciation/amortization	302,686
Total operating expenses	919,091
 NET GAIN FROM OPERATIONS	 16,800
 NONOPERATING REVENUES (EXPENSES)	
Net investment income	1,778
Interest on capital lease obligations	(69,763)
Lease purchase issuance costs	(12,274)
Tap fees paid to WHMD	(146,000)
Total nonoperating revenues (expenses)	(226,259)
 CAPITAL CONTRIBUTIONS	
Tap fees - District	411,117
Tap fees - WHMD	146,000
Total capital contributions	557,117
 CHANGE IN NET POSITION	 347,658
 NET POSITION - BEGINNING OF YEAR (Restated)	 8,474,506
NET POSITION - END OF YEAR	\$ 8,822,164

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended December 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 931,668
Payments to vendors	(428,107)
Payments to employees	(203,777)
Net cash provided by operating activities	299,784

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital asset purchases	(268,076)
Tap fees received	557,117
Tap fees remitted to WHMD	(146,000)
Capital lease proceeds received	127,326
Capital lease issuance costs	(12,274)
Principal paid on capital leases	(224,923)
Interest paid on capital leases	(67,621)
Net cash required by capital financing activities	(34,451)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	1,778
Net cash provided by investing activities	1,778

NET INCREASE IN CASH AND CASH EQUIVALENTS

NET INCREASE IN CASH AND CASH EQUIVALENTS	267,111
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	351,366
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 618,477

**RECONCILIATION OF OPERATING LOSS TO CASH FLOWS
REQUIRED BY OPERATING ACTIVITIES**

Net gain from operations	\$ 16,800
Adjustments to reconcile gain from operations to net cash provided by operating activities:	
Depreciation/amortization	302,686
Effects of changes in operating assets, deferred outflows, liabilities and deferred inflows	
Accounts receivable	(4,223)
Accounts payable	(25,821)
Wages and payroll taxes payable	3,404
Paid time off payable	6,938
Net cash provided by operating activities	\$ 299,784

These financial statements should be read only in connection with the accompanying notes to financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 – DEFINITION OF REPORTING ENTITY

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

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 follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

In 2015, the District adopted a resolution to create the Paint Brush Hills Metropolitan District Subdistrict A (Subdistrict A). The Subdistrict A was formed to provide certain services, programs and facilities to be furnished within the area of the Subdistrict A, and to provide for the fair and equitable taxation within said area. Any debt incurred by the Subdistrict A shall be treated separately and distinct from the debt of the District, which is limited and not to exceed \$9,000,000. The Subdistrict A is limited to a maximum debt service mill levy of 40.000 mills. Upon the discharge of any and all debt issued by or on behalf of the Subdistrict A, the District's Board of Directors shall have the option to dissolve the Subdistrict A. The District Board of Directors shall constitute ex officio the Subdistrict A's Board of Directors, with each director of the Subdistrict A's Board of Directors possessing all rights, privileges and immunities as granted by law to the directors of the District. Due to the relationship of the Subdistrict A to the District, the Subdistrict A has been included in these basic financial statements as a blended component unit.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which are normally supported by taxes and intergovernmental

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position reports all financial and capital resources of the District, with the difference between the assets, liabilities, and deferred inflows of resources of the District being reported as net position.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) 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 capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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 related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation and amortization is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds, notes and capital leases are recorded as a reduction in liabilities.

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 current period or soon enough thereafter to pay liabilities of the current 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. The major sources of revenue susceptible to accrual are property taxes and program generated revenues. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Conservation Trust Fund*, a special revenue fund, is used to account for State of Colorado Lottery proceeds that are restricted for recreational expenditures.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
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The *Subdistrict A Fund*, a special revenue fund, is used to account for the activities of the Paint Brush Hills Metropolitan District Subdistrict A which has been included as a blended component unit.

The District reports the following major proprietary fund:

The *Water and Wastewater Fund* is used to account for the activities of providing water and sewer services to the residents within the District's boundaries.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

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

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

For the year ended December 31, 2016, supplementary appropriations approved by the District modified the appropriations from \$407,922 to \$451,809 in the General Fund and from \$1,093,272 to \$1,251,186 in the Water and Wastewater Fund.

For District management purposes, the District adopts budgets for a General Fund, Conservation Trust Fund, Subdistrict A Fund, Capital Project Fund and Enterprise Fund. Since the activities of the Capital Project Fund are for the financing and construction of facilities to be used primarily by the water and wastewater operations of the District, the Capital Project Fund and Enterprise Fund activity has been combined for reporting in the government-wide financial statements and proprietary fund statements. However, as separate budgets have been adopted for the Capital Project Fund and Enterprise Fund, separate budget to actual comparison schedules have been included in the supplemental information.

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Receivables

Receivables are reported net of an allowance for uncollectible accounts, if applicable.

Prepaid Expenditures/Expenses

Certain payments to vendors for goods or services reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue and reported as deferred inflows of resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Capital Assets

Capital assets, which include land, property, plant, equipment, vehicles and water rights, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements or the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and a useful life exceeding one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Depreciation or amortization expense has been computed using the straight-line method over the following estimated economic useful lives:

Parks and recreation – parts, facilities and improvements	20 years
Plant	40 years
Vehicles	4-10 years
Office equipment	5 years
Other equipment	5 years
Water rights exhaustible	100 years
Water rights inexhaustible	Not amortized

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Tap Fees and Contributed Capital Assets

Tap fees are recorded as capital contributions when received. Capital assets, such as water and sewer lines and facilities, contributed to the District are recorded as capital contributions and additions to the systems at estimated fair value when received.

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, which is property taxes levied for the ensuing year.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the proprietary fund 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 Balances – Governmental Funds

The District's governmental fund balances may consist of five classifications based on the relative strength of the spending constraints as follows:

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Nonspendable fund balance—the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact.

Restricted fund balance—the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board of Directors or by an official or body to which the District Board of Directors delegates the authority.

Unassigned fund balance—amounts that are available for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District Board of Directors has provided otherwise in its commitment or assignment actions.

NOTE 3 - CASH AND INVESTMENTS

Cash Deposits

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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102 percent of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2016, the District's cash deposits had a bank balance of \$831,471 and a carrying balance of \$821,212.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Investments

Credit Risk

The District has not adopted a formal investment policy, however, the District follows Colorado State Statutes which specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Interest Rate Risk

The District's investment policy states that the maturity of the securities shall be structured to avoid any undue concentration in any sector of the yield curve. No portion of the portfolio shall exceed five years in maturity with consideration for a laddering approach.

At December 31, 2016, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST	Weighted average under 60 days	<u>\$ 10,763</u>

COLOTRUST

At December 31, 2016, the District has invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreement collateralized by certain obligations of the U.S. government agencies. COLOTRUST is rated AAAM by Standard and Poor's.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Investment Valuation

The District has certain investments which are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment in COLOTRUST is valued using Level 2 inputs.

All of the cash and investments held by the District qualify as cash and cash equivalents, and are therefore reported as cash and cash equivalents in financial statements as of December 31, 2016.

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in the governmental activities capital assets for the year ended December 31, 2016 follows:

	Balance at December 31, 2015 (Restated)	Additions	Deletions	Balance December 31, 2016
Governmental activities				
Capital assets, being depreciated:				
Parks and recreation - parks, facilities and improvements	\$ 311,078	\$ -	\$ -	\$ 311,078
Total capital assets, being depreciated	<u>311,078</u>	<u>-</u>	<u>-</u>	<u>311,078</u>
Less accumulated depreciation for:				
Parks and recreation - parks, facilities and improvements	(105,455)	(15,554)	-	(121,009)
Total accumulated depreciation	<u>(105,455)</u>	<u>(15,554)</u>	<u>-</u>	<u>(121,009)</u>
Total capital assets, being depreciated, net	<u>205,623</u>	<u>(15,554)</u>	<u>-</u>	<u>190,069</u>
Government capital assets, net	<u>\$ 205,623</u>	<u>\$ (15,554)</u>	<u>\$ -</u>	<u>\$ 190,069</u>

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**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

An analysis of the changes in the business-type activities capital assets for the year ended December 31, 2016 follows:

	Balance at December 31, 2015 (Restated)	Additions	Deletions	Balance December 31, 2016
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 669,455	\$ -	\$ -	\$ 669,455
Water rights - inexhaustible	180,000	-	-	180,000
Construction in progress	80,489	259,332	-	339,821
Total capital assets, not being depreciated	<u>929,944</u>	<u>259,332</u>	<u>-</u>	<u>1,189,276</u>
Capital assets, being depreciated/ amortized:				
Plant	9,423,712	-	-	9,423,712
Vehicles	77,594	26,500	-	104,094
Office equipment	6,380	-	-	6,380
Other	9,012	-	-	9,012
Water rights	4,287,600	-	-	4,287,600
Total capital assets, being depreciated/amortized	<u>13,804,298</u>	<u>26,500</u>	<u>-</u>	<u>13,830,798</u>
Less accumulated depreciation/ amortization for:				
Plant	(2,955,591)	(251,464)	-	(3,207,055)
Vehicles	(36,933)	(14,476)	-	(51,409)
Office equipment	(6,380)	-	-	(6,380)
Other	(9,012)	-	-	(9,012)
Water rights	(1,550,283)	(36,746)	-	(1,587,029)
Total accumulated depreciation	<u>(4,558,199)</u>	<u>(302,686)</u>	<u>-</u>	<u>(4,860,885)</u>
Total capital assets, being depreciated, net	<u>9,246,099</u>	<u>(276,186)</u>	<u>-</u>	<u>8,969,913</u>
Business-type capital assets, net	<u>\$ 10,176,043</u>	<u>\$ (16,854)</u>	<u>\$ -</u>	<u>\$ 10,159,189</u>

Depreciation/amortization expense was charged to the following functions/programs:

Governmental activities

Parks and recreation \$ 15,554

Business-type activities

Water and sewer operations \$ 302,686

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 – LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations of the business-type activities for the year ended December 31, 2016.

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2016</u>	<u>Due Within One Year</u>
Business-type activities					
Capital Lease Obligations:					
Ford F150 pickup	\$ 28,422	\$ -	\$ (28,422)	\$ -	\$ -
Refinance lease	2,049,422	-	(191,453)	1,857,969	199,063
Building construction:					
Lease purchase #1	-	624,244	(5,048)	619,196	21,011
Lease purchase #2	-	218,274	-	218,274	7,578
	<u>\$ 2,077,844</u>	<u>\$ 842,518</u>	<u>\$ (224,923)</u>	<u>\$ 2,695,439</u>	<u>\$ 227,652</u>

Farmers State Bank Lease – Ford F150 Pickup

On October 15, 2015, the District entered into a Lease/Purchase Agreement with Farmers State Bank, in the amount of \$28,422, to finance the purchase of a Ford F150 Pickup. The lease required two annual payments of \$15,029 with the first installment starting on October 15, 2016, with the final installment/maturity being made on October 15, 2017, including interest at a rate of 3.75%. During 2016, the District repaid the lease early in full and exercised the option to purchase the vehicle at the end of the lease, and retained ownership of the vehicle. During 2016, the District paid interest of \$747 and recognized interest expense of \$522 related to this lease.

Farmers State Bank Lease – Refinance Lease

On March 31, 2015, the District entered into a Lease Purchase Agreement (Refinancing Lease) with Farmers State Bank, in the amount of \$2,174,856, to refinance a Refinancing Lease Purchase Agreement with Wells Fargo Bank, National Association (WF Lease) which was originally dated March 29, 2005 and as amended January 18, 2013. The WF Lease had been issued to refinance the purchase of certain land and equipment as well as provide financing of additional equipment, at a total cost of \$10,093,167. The Refinancing Lease is secured by the base rentals of the District as well as a leasehold interest in land, facilities, improvements, fixtures, equipment, furnishings and support facilities (Security Facilities). As of December 31, 2016, the Security Facilities had an original cost of \$10,093,167 and accumulated depreciation of \$3,207,055. The Refinancing Lease requires monthly payments of \$21,002 beginning on May 1, 2015 through maturity on April 1, 2025, including interest at a rate of 3.00%. During 2016, the District paid interest of \$60,575 and recognized interest expense of \$60,250.

Farmers State Bank – Building Construction Lease Purchase #1

On September 1, 2016, the District into a Lease Purchase Agreement (Lease Purchase #1) with Farmers State Bank, in the amount of \$624,244, to finance the acquisition, construction, improvement and equipping of an office facility and maintenance shop (Project). The Lease Purchase #1 is secured by the base rentals of the District as well as a leasehold interest in the Project. As of December 31, 2016, the Project had an original cost of \$339,821 and accumulated depreciation of \$0. The Lease Purchase #1 requires monthly payments of \$3,783

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
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beginning on October 1, 2016 through maturity on September 1, 2036, including interest at a rate of 4.00%. During 2016, the District paid interest of \$6,300 and recognized interest expense of \$8,433.

Farmers State Bank – Building Construction Lease Purchase #2

On December 9, 2016, the District into an Amendment to Lease Purchase Agreement (Lease Purchase #2) with Farmers State Bank, in the amount of \$218,274, to amend Lease Purchase #1 to provide additional funding for the Project as discussed above. The Lease Purchase #2 security is the same as discussed above for Lease Purchase #1. The Lease Purchase #2 requires monthly payments of \$1,333 beginning on January 1, 2017 through maturity on September 1, 2036, including interest at a rate of 4.00%. During 2016, the District paid interest of \$0 and recognized interest expense of \$558.

The future minimum lease obligations and net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year Ending	Business- Type Activities
2017	\$ 313,412
2018	313,412
2019	313,412
2020	313,412
2021	313,412
2022-2026	1,148,747
2027-2031	306,922
2032-2036	<u>291,650</u>
Total minimum lease payments	3,314,379
Less amount representing interest	<u>(618,940)</u>
Present value of minimum lease payments	<u><u>\$ 2,695,439</u></u>

Authorized but Unissued Debt

At December 31, 2016, the Subdistrict A had authorized but unissued debt of \$9,000,000. Subdistrict A does not anticipate issuing any debt during 2017.

NOTE 7 - FUND EQUITY

At December 31, 2016, the District reported the following classifications of fund equity.

Nonspendable Fund Balance

The nonspendable fund balance in the General Fund in the amount of \$34,680 is comprised of prepaid amounts which are not in spendable form.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Restricted Fund Balance

The restricted fund balance in the General Fund in the amount of \$12,457 is comprised of the Emergency Reserves that have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 12).

The restricted fund balance in the Conservation Trust Fund in the amount of \$43,874 represents unspent Conservation Trust Fund receipts which are restricted for parks and recreation purposes.

Deficit Fund Balance

As of December 31, 2016, the Subdistrict A Fund reported an overall fund balance deficit of (\$5,139). The District anticipates this deficit will be eliminated expenditure reimbursements by third parties during 2017.

NOTE 8 - NET POSITION

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016, the District had invested in capital assets of \$190,069 for the governmental activities and \$8,178,942 for the business-type activities for a combined net investment in capital assets of \$8,369,011.

Restricted net position includes amounts that are 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. The District had restricted net position as of December 31, 2016 as follows:

Restricted for:	
Emergencies	\$ 12,457
Parks and recreation	43,874
	<u>\$ 56,331</u>

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

The District pays annual premiums to the Pool for property, liability, public officials' liability, boiler and machinery and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 – COMMITMENTS

Construction Commitments

As of December 31, 2016, the District had construction commitments of \$850,964 related to the construction of the District's shop and administration building.

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 2016, 73 connections were sold leaving a total of 244 unsold connections.

NOTE 12 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations that apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 13 - RESTATEMENT

During 2016, the District determined that certain capital assets that had been previously reported in the business-type activities and proprietary fund should have been reported in the governmental activities. Therefore the District restated the beginning net position as follows:

	Governmental Activities	Business-type Activities/ Proprietary Fund
Net position as originally reported December 31, 2015	\$ 145,328	\$ 8,680,129
Adjustment to move capital assets from the business-type activities to the governmental activities as of December 31, 2015:		
Parks and recreation - parks, facilities and improvements, net	205,623	(205,623)
Net position as restated December 31, 2015	\$ 350,951	\$ 8,474,506

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
CAPITAL PROJECTS FUND
Year Ended December 31, 2016**

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Lease purchase proceeds	\$ 700,000	\$ 842,518	\$ 142,518
Transfer from Enterprise Fund	115,000	150,000	35,000
Total revenues	<u>815,000</u>	<u>992,518</u>	<u>177,518</u>
EXPENDITURES			
Engineering and project management	100,000	70,275	29,725
Legal	15,000	5,662	9,338
Construction	700,000	183,395	516,605
Lease purchase issuance costs	-	12,274	(12,274)
Total expenditures	<u>815,000</u>	<u>271,606</u>	<u>543,394</u>
NET CHANGE IN FUND BALANCE	-	720,912	720,912
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 720,912</u>	<u>\$ 720,912</u>

PAINT BRUSH HILLS METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
ENTERPRISE FUND
Year Ended December 31, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
Water - base fees	272,000	272,000	268,958	(3,042)
Builder fees	3,000	3,000	146	(2,854)
Wastewater-church	450	450	372	(78)
Wastewater-residential	155,000	155,000	104,781	(50,219)
Wastewater-school	5,500	5,500	6,300	800
Wastewater-other	350	-	-	-
Underdrain	-	373	587	214
Street Lighting	-	26	284	258
Penalties	-	1,770	11,919	10,149
Water-church	3,000	3,000	23	(2,977)
Water-residential	250,000	312,028	506,236	194,208
Water-school	46,800	46,800	(10,449)	(57,249)
Meters	15,000	20,500	33,000	12,500
Inspection Fees	5,000	5,000	1,050	(3,950)
Tap Fees	215,000	496,780	557,117	60,337
Transfer Fees	11,000	4,044	8,044	4,000
Grants	60,000	-	-	-
Interest	1,000	1,641	1,778	137
Tank Rental-Antennas	5,399	5,399	4,590	(809)
Bulk Water Sales	2,403	2,403	50	(2,353)
Other Operating Revenue	1,553	1,553	-	(1,553)
Total Revenues	1,052,455	1,337,267	1,494,786	157,519
EXPENDITURES				
Operating:				
Employee wages	185,916	184,886	173,384	11,502
Payroll taxes	14,222	16,440	13,162	3,278
457b plan contributions	5,577	9,300	4,650	4,650
Health insurance	13,000	27,386	22,923	4,463
Operator phone allowance	2,900	1,600	1,579	21
Legal	10,000	11,686	15,674	(3,988)
Miscellaneous	-	5,984	20,595	(14,611)
Engineer	25,000	50,756	33,032	17,724
Analytical Testing	10,000	6,782	16,252	(9,470)
Chemical/Equipment	3,800	7,788	11,942	(4,154)
Misc Supplies, Tools	10,000	1,750	10,755	(9,005)
OPS Certification and Training	2,000	892	1,252	(360)
Billing Expense	21,500	31,325	29,130	2,195
Meters-Residential Repairs & Replacement	3,000	16,650	24,494	(7,844)
Bulk Water Purchases	30,500	29,080	29,692	(612)
Tap Fees	60,000	130,000	146,000	(16,000)
Collection System Repairs, Mtce	5,000	286	2,531	(2,245)
Storage & Port-O-Let Fees (Pumphouse)	300	2,168	1,269	899
Pumphouse Mtce	5,000	1,146	2,644	(1,498)
Well Repairs-Mtce	25,000	1,108	4,859	(3,751)
Storage Tank Repars-Mtce	2,500	-	389	(389)
Roadway and Waterline Repairs	15,000	52,325	35,966	16,359
Utilities	139,000	139,000	137,336	1,664
Vehicle Mtc & Repair	10,000	4,458	6,703	(2,245)
Pumphouses	6,000	-	-	-
Storage Tanks, SCADA & Booster	104,000	10,779	16,192	(5,413)

(Continued)

PAINT BRUSH HILLS METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
ENTERPRISE FUND
Year Ended December 31, 2016
(Continued)

	<u>Original Budgeted Amounts</u>	<u>Original Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Capital outlay:				
Capital-Heavy Equip.Vehicles	2,000	26,500	26,500	-
Debt service:				
FSB lease purchase (9/1/16)-building-principal	-	-	5,048	(5,048)
FSB lease purchase (9/1/16)-building-interest	-	-	8,433	(8,433)
FSB lease purchase (12/9/16)-building-interest	-	-	558	(558)
FSB Lease Purchase-Principal	193,187	193,187	191,453	1,734
FSB Lease Purchase-Interest	58,841	58,841	60,250	(1,409)
2015 Truck LP - FSB - Principal	13,945	28,422	28,422	-
2015 Truck LP - FSB - Interest	1,084	661	522	139
Transfer to Capital Projects Fund	115,000	200,000	150,000	50,000
	<u>1,093,272</u>	<u>1,251,186</u>	<u>1,233,591</u>	<u>17,595</u>
NET CHANGE IN FUNDS AVAILABLE	(40,817)	86,081	261,195	175,114
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>8,667,419</u>	<u>376,307</u>	<u>376,307</u>	<u>-</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 8,626,602</u>	<u>\$ 462,388</u>	<u>\$ 637,502</u>	<u>\$ 175,114</u>
FUNDS AVAILABLE - CAPITAL PROJECTS FUND (PAGE 26)			\$ 720,912	
FUNDS AVAILABLE - ENTERPRISE FUND			<u>637,502</u>	
			<u>\$ 1,358,414</u>	
FUNDS AVAILABLE IS CALCULATED AS FOLLOWS:				
Current assets			\$ 1,394,002	
Current liabilities			(263,240)	
Add back current portion of capital lease obligations			<u>227,652</u>	
			<u>\$ 1,358,414</u>	

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2016**

Capital Projects Fund revenues - budgetary basis	\$	992,518
Enterprise Fund revenues - budgetary basis		1,494,786
Less lease purchase proceeds		(842,518)
Less interfund transfer		(150,000)
Revenues per Statements of Revenues, Expenses and Changes in Net Position		1,494,786
Capital Projects Fund expenditures - budgetary basis		271,606
Enterprise Fund expenditures - budgetary basis		1,233,591
Less principal paid on capital lease obligations		(224,923)
Less capital outlay		(285,832)
Less interfund transfer		(150,000)
Add depreciation		302,686
Expenses per Statements of Revenues, Expenses and Changes in Net Position		1,147,128
Change in net position per Statements of Revenues, Expenses and Changes in Net Position	\$	347,658

OTHER INFORMATION

**PAIN BRUSH HILLS METROPOLITAN DISTRICT
SUMMARY OF ASSESSED VALUATION , MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2016**

Paint Brush Hills Metropolitan District

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Property Taxes</u>		<u>Percentage Collected to Levied</u>
		<u>Operations</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2016	\$ 16,488,770	22.107	0.000	\$ 364,517	\$ 364,957	100.1%
Estimated for year ending December 31, 2017	\$ 17,681,870	18.063 (A)	0.000	\$ 319,388		

Paint Brush Hills Metropolitan District Subdistrict A

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Property Taxes</u>		<u>Percentage Collected to Levied</u>
		<u>Operations</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2016	\$ -	0.000	0.000	\$ -	\$ -	N/A
Estimated for year ending December 31, 2017	\$ 223,230	0.000	40.000	\$ 8,929		

(A) - Net of temporary mill levy reductoin of 4.044 mills.

NOTE: Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.