

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Paint Brush Hills Metropolitan District
Peyton, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Paint Brush Hills Metropolitan District (District), as of and for the year ended December 31, 2018, 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, the business-type activities, and each major fund of the District, as of December 31, 2018, 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 Operations Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT - CONTINUED

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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 – Subdistrict A Debt Service Fund, and the Schedule of Revenues, Expenditures and Changes in Funds Available – Budget and Actual (Budgetary Basis) – Water and Wastewater 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 this 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 & Mascher LLP

Colorado Springs, Colorado
June 30, 2019

BASIC FINANCIAL STATEMENTS

PAINT BRUSH HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
December 31, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents-unrestricted	\$ 244,913	\$ 847,721	\$ 1,092,634
Cash and cash equivalents-restricted	52,905	-	52,905
Accounts receivable	7,668	101,751	109,419
Accounts receivable - Developer reimbursements	-	16,832	16,832
Due from County Treasurer	4,621	-	4,621
Prepaid expenses	3,268	13,081	16,349
Deposits	-	9,738	9,738
Property taxes receivable	526,302	-	526,302
Capital assets not being depreciated/amortized	-	1,332,806	1,332,806
Capital assets being depreciated/amortized, net of accumulated depreciation/amortization	1,064,369	12,404,772	13,469,141
Total assets	<u>1,904,046</u>	<u>14,726,701</u>	<u>16,630,747</u>
LIABILITIES			
Accounts payable	27,699	53,114	80,813
Well rehabilitation deposit	-	228,553	228,553
Other deposits	-	6,000	6,000
Wages and payroll taxes payable	2,506	5,701	8,207
Paid time off payable	6,039	11,902	17,941
Interest payable	-	7,985	7,985
Long-term obligations:			
Due within one year	-	278,456	278,456
Due in more than one year	-	2,078,914	2,078,914
Total liabilities	<u>36,244</u>	<u>2,670,625</u>	<u>2,706,869</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	526,302	-	526,302
Total deferred inflows of resources	<u>526,302</u>	<u>-</u>	<u>526,302</u>
NET POSITION			
Net investment in capital assets	1,064,369	11,380,208	12,444,577
Restricted for:			
Emergencies	13,096	-	13,096
Parks and recreation	623	-	623
Debt service	52,705	-	52,705
Unrestricted	210,707	675,868	886,575
Total net position	<u>\$ 1,341,500</u>	<u>\$ 12,056,076</u>	<u>\$ 13,397,576</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, 2018**

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	\$ 267,052	\$ 11,294	\$ -	\$ 784,773	\$ 529,015	\$ -	\$ 529,015
Parks and recreation	64,161	-	-	11,345	(52,816)	-	(52,816)
Stormwater	33,083	-	-	-	(33,083)	-	(33,083)
	<u>364,296</u>	<u>11,294</u>	<u>-</u>	<u>796,118</u>	<u>443,116</u>	<u>-</u>	<u>443,116</u>
Business-type activities:							
Water and sewer operations	1,596,144	1,190,592	18,619	3,596,974	-	3,210,041	3,210,041
	<u>1,596,144</u>	<u>1,190,592</u>	<u>18,619</u>	<u>3,596,974</u>	<u>-</u>	<u>3,210,041</u>	<u>3,210,041</u>
Total	<u>\$ 1,960,440</u>	<u>\$ 1,201,886</u>	<u>\$ 18,619</u>	<u>\$ 4,393,092</u>	<u>443,116</u>	<u>3,210,041</u>	<u>3,653,157</u>
General revenues:							
Taxes:							
Property taxes					416,659	-	416,659
Specific ownership taxes					52,646	-	52,646
Net investment earnings					4,883	1,943	6,826
Miscellaneous					6,205	-	6,205
Gain on sale of capital assets					-	493	493
Transfers					(120)	120	-
Total general revenues					<u>480,273</u>	<u>2,556</u>	<u>482,829</u>
Change in net position					923,389	3,212,597	4,135,986
Net position - Beginning of year					418,111	8,843,479	9,261,590
Net position - End of year					<u>\$ 1,341,500</u>	<u>\$ 12,056,076</u>	<u>\$ 13,397,576</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, 2018**

	General Fund	Conservation Trust Fund	Subdistrict A Operations Special Revenue Fund	Subdistrict A Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents-unrestricted	\$ 244,913	\$ -	\$ -	\$ -	\$ 244,913
Cash and cash equivalents-restricted	-	623	-	52,282	52,905
Due from other fund	868	-	-	-	868
Accounts receivable	-	-	7,668	-	7,668
Due from County Treasurer	4,198	-	-	423	4,621
Prepaid expenditures	3,268	-	-	-	3,268
Property tax receivable	423,060	-	-	103,242	526,302
TOTAL ASSETS	<u>\$ 676,307</u>	<u>\$ 623</u>	<u>\$ 7,668</u>	<u>\$ 155,947</u>	<u>\$ 840,545</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 26,966	\$ -	\$ 733	\$ -	\$ 27,699
Wages and payroll taxes payable	2,506	-	-	-	2,506
Due to other fund	-	-	868	-	868
Paid time off payable	6,039	-	-	-	6,039
Total Liabilities	<u>35,511</u>	<u>-</u>	<u>1,601</u>	<u>-</u>	<u>37,112</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property tax revenues	423,060	-	-	103,242	526,302
Deferred developer reimbursements	-	-	7,668	-	7,668
Total Deferred Inflows of Resources	<u>423,060</u>	<u>-</u>	<u>7,668</u>	<u>103,242</u>	<u>533,970</u>
FUND BALANCES					
Nonspendable:					
Prepaid expenditures	3,268	-	-	-	3,268
Spendable:					
Restricted for:					
Emergencies	13,096	-	-	-	13,096
Parks and recreation	-	623	-	-	623
Debt service	-	-	-	52,705	52,705
Assigned:					
Subsequent year's expenditures	38,229	-	-	-	38,229
Unassigned	163,143	-	(1,601)	-	161,542
Total Fund Balances	<u>217,736</u>	<u>623</u>	<u>(1,601)</u>	<u>52,705</u>	<u>269,463</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 676,307</u>	<u>\$ 623</u>	<u>\$ 7,668</u>	<u>\$ 155,947</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

1,064,369

Some amounts are deferred because they are measurable, but not available, and are therefore reported as deferred inflows of resources on the Balance Sheet - Governmental Funds.

However for the Statement of Net Position they are not deferred as they are considered earned.

Deferred developer reimbursements

7,668

Net position of governmental activities

\$ 1,341,500

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, 2018

	General Fund	Conservation Trust Fund	Subdistrict A Operations Special Revenue Fund	Subdistrict A Debt Service Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 378,530	\$ -	\$ -	\$ 38,129	\$ 416,659
Specific ownership taxes	47,828	-	-	4,818	52,646
Conservation Trust Fund	-	11,345	-	-	11,345
Net investment income	3,955	610	-	318	4,883
Subdistrict costs reimbursements	-	-	4,294	-	4,294
Miscellaneous	6,205	-	-	-	6,205
Total revenues	<u>436,518</u>	<u>11,955</u>	<u>4,294</u>	<u>43,265</u>	<u>496,032</u>
EXPENDITURES					
Current:					
Audit	5,661	-	-	-	5,661
Director's fees	7,600	-	-	-	7,600
District manager	37,058	-	-	-	37,058
Employee wages	45,217	-	-	-	45,217
Payroll taxes	7,312	-	-	-	7,312
457b plan contributions	2,381	-	-	-	2,381
Payroll processing	2,993	-	-	-	2,993
Health insurance	27,579	-	-	-	27,579
District manager phone allowance	393	-	-	-	393
Employee training	1,276	-	-	-	1,276
Election/Board meetings	6,620	-	-	-	6,620
Insurance	9,498	-	-	-	9,498
Legal	45,727	-	5,787	-	51,514
Miscellaneous	1,946	-	-	-	1,946
Bank charges	585	-	-	-	585
Dues/subscriptions/conferences	3,557	-	-	-	3,557
Office utilities	6,426	-	-	-	6,426
Office equipment	9,168	-	-	-	9,168
Office supplies	6,064	-	-	-	6,064
Postage	70	-	-	-	70
Telephone	641	-	-	-	641
Accounting	12,861	-	108	-	12,969
Office technology/website	6,977	-	-	-	6,977
Building maintenance	5,746	-	-	-	5,746
Treasurer's fees	5,680	-	-	572	6,252
Parks and property grounds maintenance	29,855	-	-	-	29,855
Parks maintenance and repairs	10,373	-	-	-	10,373
Parks and property landscaping	4,759	-	-	-	4,759
Training	1,549	-	-	-	1,549
Storm water facilities maintenance	29,159	-	-	-	29,159
Capital outlay:					
Park and recreation facility improvements	47,141	13,671	-	-	60,812
Total expenditures	<u>381,872</u>	<u>13,671</u>	<u>5,895</u>	<u>572</u>	<u>402,010</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>54,646</u>	<u>(1,716)</u>	<u>(1,601)</u>	<u>42,693</u>	<u>94,022</u>
OTHER FINANCING SOURCES (USES)					
Transfer in (out)	-	(120)	-	-	(120)
Total other financing sources (uses)	<u>-</u>	<u>(120)</u>	<u>-</u>	<u>-</u>	<u>(120)</u>
NET CHANGE IN FUND BALANCES	<u>54,646</u>	<u>(1,836)</u>	<u>(1,601)</u>	<u>42,693</u>	<u>93,902</u>
FUND BALANCES - BEGINNING OF YEAR	<u>163,090</u>	<u>2,459</u>	<u>-</u>	<u>10,012</u>	<u>175,561</u>
FUND BALANCES - END OF YEAR	<u>\$ 217,736</u>	<u>\$ 623</u>	<u>\$ (1,601)</u>	<u>\$ 52,705</u>	<u>\$ 269,463</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, 2018**

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>\$ 93,902</u>
<p>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.</p>		
Capital outlay		60,812
Depreciation		<u>(23,098)</u>
		<u>37,714</u>
<p>Governmental funds report revenues that are measurable but not available within 60 days of yearend as deferred revenue. However, in the statement of activities these amounts are recognized as revenue.</p>		
Change in deferred developer reimbursements		<u>7,000</u>
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Contributed storm sewer facilities		<u>784,773</u>
Change in net position - Governmental activities		<u><u>\$ 923,389</u></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, 2018

	Original and Final Adopted Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 378,530	\$ 378,530	\$ -
Specific ownership taxes	51,173	47,828	(3,345)
Net investment income	350	3,955	3,605
Miscellaneous	249	6,205	5,956
Total Revenues	430,302	436,518	6,216
EXPENDITURES			
Current:			
Audit	5,600	5,661	(61)
Director's fees	8,000	7,600	400
District manager	38,000	37,058	942
Employee wages	43,680	45,217	(1,537)
Payroll taxes	11,000	7,312	3,688
457b plan contributions	2,800	2,381	419
Payroll processing	3,100	2,993	107
Health insurance	13,715	27,579	(13,864)
District manager phone allowance	780	393	387
Employee training	6,000	1,276	4,724
Election/Board meetings	1,500	6,620	(5,120)
Insurance	31,000	9,498	21,502
Legal	50,000	45,727	4,273
Miscellaneous	1,500	1,946	(446)
Bank charges	700	585	115
Dues/subscriptions/conferences	2,500	3,557	(1,057)
Office utilities	5,600	6,426	(826)
Office equipment	8,500	9,168	(668)
Office supplies	7,500	6,064	1,436
Postage	1,250	70	1,180
Telephone	3,000	641	2,359
Accounting	24,000	12,861	11,139
Office technology/website	10,000	6,977	3,023
Administration building maintenance	2,700	5,746	(3,046)
Treasurer's fees	5,678	5,680	(2)
Parks and property grounds maintenance	27,000	29,855	(2,855)
Parks maintenance and repairs	2,000	10,373	(8,373)
Parks and property landscaping	7,000	4,759	2,241
Training	-	1,549	(1,549)
Storm water facilities maintenance	30,000	29,159	841
Capital outlay:			
Park and recreation facility improvements	50,000	47,141	2,859
Contingency/emergency reserve	40,000	-	40,000
Total Expenditures	444,103	381,872	62,231
NET CHANGE IN FUND BALANCE	(13,801)	54,646	68,447
FUND BALANCE - BEGINNING OR YEAR	167,643	163,090	(4,553)
FUND BALANCE - END OF YEAR	\$ 153,842	\$ 217,736	\$ 63,894

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, 2018**

	<u>Original Adopted Budget</u>	<u>Final Adopted Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Conservation Trust Fund	\$ 11,000	\$ 11,345	\$ 11,345	\$ -
Net investment income	-	610	610	-
Total Revenues	<u>11,000</u>	<u>11,955</u>	<u>11,955</u>	<u>-</u>
EXPENDITURES				
Capital outlay:				
Park and recreation facility improvements	13,671	13,671	13,671	-
Total Expenditures	<u>13,671</u>	<u>13,671</u>	<u>13,671</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(2,671)</u>	<u>(1,716)</u>	<u>(1,716)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	(120)	(120)	-
NET CHANGE IN FUND BALANCE	(2,671)	(1,836)	(1,836)	-
FUND BALANCE - BEGINNING OF YEAR	<u>2,671</u>	<u>2,459</u>	<u>2,459</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 623</u>	<u>\$ 623</u>	<u>\$ -</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 OPERATIONS SPECIAL REVENUE FUND
Year Ended December 31, 2018**

	Original and Final Adopted Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Subdistrict costs reimbursements	\$ 25,050	\$ 4,294	\$ (20,756)
Total Revenues	<u>25,050</u>	<u>4,294</u>	<u>(20,756)</u>
EXPENDITURES			
Accounting	2,500	108	2,392
Insurance	50	-	50
Legal	21,500	5,787	15,713
Miscellaneous	1,000	-	1,000
Total Expenditures	<u>25,050</u>	<u>5,895</u>	<u>19,155</u>
NET CHANGE IN FUND BALANCE	-	(1,601)	(1,601)
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ -</u>	<u>\$ (1,601)</u>	<u>\$ (1,601)</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
WATER AND WASTEWATER FUND
December 31, 2018**

ASSETS

CURRENT ASSETS

Cash and cash equivalents - unrestricted	\$	847,721
Accounts receivable:		
Customer		101,751
Developer		16,832
Prepaid expenses		13,081
Deposits		9,738
Total current assets		989,123

CAPITAL ASSETS

Capital assets not being depreciated/amortized:		
Land		669,455
Water rights - inexhaustible		180,000
Construction in progress		483,351
		1,332,806
Capital assets being depreciated/amortized:		
Plant		9,715,871
Building		1,348,344
Water and sewer lines		2,409,674
Vehicles		167,939
Office equipment		6,380
Other		9,012
Water rights		4,287,600
		17,944,820
Less accumulated depreciation and amortization		(5,540,048)
Total capital assets, net		12,404,772
TOTAL ASSETS		\$ 14,726,701

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$	53,114
Deposits:		
Well rehabilitation		228,553
Other		6,000
Wages and payroll taxes payable		5,701
Paid time off payable		11,902
Interest payable on capital lease obligations		7,985
Current portion of capital lease obligations		278,456
Total current liabilities		591,711

NONCURRENT LIABILITIES

Noncurrent portion of capital lease obligations		2,078,914
Total noncurrent liabilities		2,078,914

NET POSITION

Net investment in capital assets		11,380,208
Unrestricted		675,868
Total net position		12,056,076
TOTAL LIABILITIES AND NET POSITION		\$ 14,726,701

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
WATER AND WASTEWATER FUND
Year Ended December 31, 2018**

OPERATING REVENUE	
Water base fees	\$ 317,681
Water service fees	634,445
Wastewater service fees	63,534
Other fees	120,789
Other revenues	54,143
Total operating revenue	1,190,592
 OPERATING EXPENSES	
Operations	947,068
Depreciation/amortization	379,377
Total operating expenses	1,326,445
 NET LOSS FROM OPERATIONS	 (135,853)
 NONOPERATING REVENUES (EXPENSES)	
Net investment income	1,943
Insurance reimbursement	18,619
Gain on sale of capital assets	493
Interest on capital lease obligations	(81,699)
Tap fees remitted - Outside District entities	(188,000)
Total nonoperating revenues (expenses)	(248,644)
 CAPITAL CONTRIBUTIONS	
Tap fees - District	596,438
Tap fees - Outside District entities	188,000
Developer contributions-well rehabilitation	402,862
Contributed water and sewer lines	2,409,674
Total capital contributions	3,596,974
 TRANSFERS	
Transfers in	120
 CHANGE IN NET POSITION	 3,212,597
 NET POSITION - BEGINNING OF YEAR	 8,843,479
NET POSITION - END OF YEAR	\$ 12,056,076

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
WATER AND WASTEWATER FUND
Year Ended December 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,150,652
Payments to vendors	(623,106)
Payments to employees	(285,040)
Transfers in	120
Net cash provided by operating activities	<u>242,626</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital asset purchases	(622,724)
Tap fees received	784,438
Tap fees remitted - Outside District entities	(188,000)
Well rehabilitation deposit received	502,390
Lease proceeds received	18,026
Insurance reimbursement received	18,619
Equipment deposit paid on lease purchase	(9,738)
Principal paid on capital leases	(271,914)
Interest paid on capital leases	(80,789)
Proceeds from sale of capital assets	493
Net cash required by capital financing activities	<u>150,801</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	1,943
Net cash provided by investing activities	<u>1,943</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	395,370
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	452,351
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 847,721</u></u>
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS REQUIRED BY OPERATING ACTIVITIES	
Net loss from operations	\$ (135,853)
Adjustments to reconcile gain from operations to net cash provided by operating activities:	
Depreciation/amortization	379,377
Effects of changes in operating assets, deferred outflows, liabilities and deferred inflows	
Accounts receivable	(38,781)
Accounts receivable - Developer reimbursements	(7,159)
Prepaid expenses	17,934
Accounts payable	18,759
Wages and payroll taxes payable	2,222
Paid time off payable	7
Other deposits	6,000
Transfer in	120
Net cash provided by operating activities	<u><u>\$ 242,626</u></u>
NON-CASH CAPITAL FINANCING ACTIVITIES	
Capital assets purchased with capital leases	\$ 160,251
Contributed capital assets	<u><u>\$ 2,409,674</u></u>

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, 2018**

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

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

the most part, the effect of interfund activity has been removed from these statements. Governmental activities which are normally supported by taxes and intergovernmental 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.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

The *Subdistrict A Fund Operations Special Revenue Fund (previously Subdistrict A Special Revenue 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 *Subdistrict A Fund Debt Service Fund*, a debt service fund, is used to account for the property taxes levied for the future payment of debt which is anticipated to be issued by 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 proprietary 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 Local Government Budget Law of Colorado, 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.

On June 27, 2019, the District approved supplementary appropriations for the year ended December 31, 2018 which modified the appropriations from \$13,671 to \$13,791 in the Conservation Trust Fund and from \$1,590,242 to \$2,337,878 in the Water and Wastewater Fund, as a result of revenues and related expenditures which had not been anticipated in the original budget for 2018.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 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

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Parks and recreation – parks, facilities and improvements	10-20 years
Storm sewer facilities	50 years
Plant	5-40 years
Buildings	40 years
Water and sewer lines	50 years
Vehicles	4-10 years
Office equipment	5 years
Other	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.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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:

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.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, the District's cash deposits had a bank balance of \$1,127,817 and a carrying balance of \$1,111,754.

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, 2018, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
COLOTRUST	Weighted average under 60 days	<u>\$ 33,785</u>

COLOTRUST

At December 31, 2018, 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

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

statutes governing the Trust. The Trust operates similarly to a money market fund. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. COLOTRUST PLUS+ may also invest in the highest rated commercial paper. Both the COLOTRUST PRIME and COLOTRUST PLUS+ portfolios are rated AAAM by Standard and Poor's.

Investment Valuation

Certain investments are required to be measured at fair value on a recurring basis and 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 investments are not categorized within the fair value hierarchy. Instead the District's investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in COLOTRUST at yearend for which the investment valuations were determined as follows.

COLOTRUST determines the NAV of the shares of each portfolio as of the close of business of each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of COLOTRUST, are accrued daily. The NAV is calculated at fair value using various inputs in determine value in accordance with FASB guidance. It is the goal of the Trust to maintain a NAV of \$1.00 per share, however changes in interest rates may affect the fair value of the securities held by COLOTRUST and there can be no assurance that the NAV will not vary from \$1.00 per share.

Restricted Cash and Investments

At December 31, 2018, the District reports cash and investments in the amount of \$623 in the Conservation Trust Fund and \$52,282 Subdistrict A Debt Service Fund as restricted. The amounts are restricted for parks and recreation and debt service, respectively.

Cash and Cash Equivalents

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, 2018.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in the governmental activities capital assets for the year ended December 31, 2018 follows:

	<u>Balance at December 31, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>
Governmental activities				
Capital assets, being depreciated:				
Parks and recreation - parks, facilities and improvements	\$ 379,298	\$ 60,812	\$ -	\$ 440,110
Storm sewer facilities	-	784,773	-	784,773
Total capital assets, being depreciated	<u>379,298</u>	<u>845,585</u>	<u>-</u>	<u>1,224,883</u>
Less accumulated depreciation for:				
Parks and recreation - parks, facilities and improvements	(137,416)	(19,174)	-	(156,590)
Storm sewer facilities	-	(3,924)	-	(3,924)
Total accumulated depreciation	<u>(137,416)</u>	<u>(23,098)</u>	<u>-</u>	<u>(160,514)</u>
Total capital assets, being depreciated, net	<u>241,882</u>	<u>822,487</u>	<u>-</u>	<u>1,064,369</u>
Government capital assets, net	<u>\$ 241,882</u>	<u>\$ 822,487</u>	<u>\$ -</u>	<u>\$ 1,064,369</u>

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**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

An analysis of the changes in the business-type activities capital assets for the year ended December 31, 2018 follows:

	Balance at December 31, 2017	Additions	Deletions	Balance December 31, 2018
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	402,862	-	483,351
Total capital assets, not being depreciated	<u>929,944</u>	<u>402,862</u>	<u>-</u>	<u>1,332,806</u>
Capital assets, being depreciated/ amortized:				
Plant	9,423,712	292,159	-	9,715,871
Buildings	1,348,344	-	-	1,348,344
Water and sewer lines	-	2,409,674	-	2,409,674
Vehicles	104,094	87,954	(24,109)	167,939
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>15,179,142</u>	<u>2,789,787</u>	<u>(24,109)</u>	<u>17,944,820</u>
Less accumulated depreciation/ amortization for:				
Plant	(3,458,519)	(270,209)	-	(3,728,728)
Buildings	(19,663)	(33,709)	-	(53,372)
Water and sewer lines	-	(12,048)	-	(12,048)
Vehicles	(67,431)	(26,666)	24,109	(69,988)
Office equipment	(6,380)	-	-	(6,380)
Other	(9,012)	-	-	(9,012)
Water rights - exhaustible	(1,623,775)	(36,745)	-	(1,660,520)
Total accumulated depreciation	<u>(5,184,780)</u>	<u>(379,377)</u>	<u>24,109</u>	<u>(5,540,048)</u>
Total capital assets, being depreciated, net	<u>9,994,362</u>	<u>2,410,410</u>	<u>-</u>	<u>12,404,772</u>
Business-type capital assets, net	<u>\$ 10,924,306</u>	<u>\$ 2,813,272</u>	<u>\$ -</u>	<u>\$ 13,737,578</u>

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

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Governmental activities

Parks and recreation	\$ 19,174
Stormwater	3,924
	\$ 23,098

Business-type activities

Water and sewer operations	\$ 379,377
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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, 2018.

	Balance at December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Business-type activities					
Capital Lease Obligations:					
Refinance lease	\$ 1,659,701	\$ -	\$ (204,383)	\$ 1,455,318	\$ 210,687
Building construction:					
Lease purchase #1	598,532	-	(21,518)	577,014	22,407
Lease purchase #2	210,800	-	(34,625)	176,175	9,013
Ford Escape lease purchase	-	24,751	-	24,751	7,964
Ford F250 lease purchase	-	32,626	-	32,626	10,497
SCADA system lease purchase	-	102,874	(11,388)	91,486	17,888
	\$ 2,469,033	\$ 160,251	\$ (271,914)	\$ 2,357,370	\$ 278,456

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, 2018, the Security Facilities had an original cost of \$10,093,167 and accumulated depreciation of \$3,709,983. 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 2018, the District paid interest of \$47,644 and recognized interest expense of \$47,116.

Farmers State Bank – Building Construction Lease Purchase #1

On September 1, 2016, the District entered 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).

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, the Project had an original cost of \$1,348,344 and accumulated depreciation of \$53,372. The Lease Purchase #1 requires monthly payments of \$3,783 beginning on October 1, 2016 through maturity on September 1, 2036, including interest at a rate of 4.00%. During 2018, the District paid interest of \$23,876 and recognized interest expense of \$23,802.

Farmers State Bank – Building Construction Lease Purchase #2

On December 9, 2016, the District entered 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 2018, the District paid interest of \$7,637 and recognized interest expense of \$7,518.

Farmers State Bank – Ford Escape Lease Purchase

On January 18, 2018, the District entered into a Lease/Purchase Agreement with Farmers State Bank for the purchase of a 2018 Ford Escape vehicle with a cost of \$24,751. The lease is secured by the 2018 Ford Escape, which as of December 31, 2018 had accumulated depreciation of \$6,188. The lease purchase agreement requires three annual payments of \$8,844 beginning on January 18, 2019 and ending on January 18, 2021, including interest at a rate of 3.50%. During 2018, the District paid interest of \$0 and recognized interest expense of \$837.

Farmers State Bank – Ford F250 Pickup Lease Purchase

On April 19, 2018, the District entered into a Lease/Purchase Agreement with Farmers State Bank for the purchase of a 2018 Ford F250 Pickup vehicle with a cost of \$32,626. The lease is secured by the 2018 Ford F250 Pickup, which as of December 31, 2018 had accumulated depreciation of \$5,438. The lease purchase agreement requires three annual payments of \$11,658 beginning on April 19, 2019 and ending on April 19, 2021, including interest at a rate of 3.50%. During 2018, the District paid interest of \$0 and recognized interest expense of \$793.

Browns Hill Engineering & Controls, LLC – SCADA System Lease Purchase

On February 15, 2018, the District entered into a Software and Equipment Lease with Browns Hills Engineering & Controls, LLC for the lease of a vmSCADA system with a cost of \$102,874. The lease is secured by the vmSCADA system and a security deposit of \$9,738. At December 31, 2018 the vmSCADA system had accumulated depreciation of \$10,287. The lease agreement requires sixty monthly payments of \$1,860 which began on July 1, 2019 and ending on June 1, 2023, including imputed interest at a rate of 3.364%. During 2018, the District paid interest of \$1,633 and recognized interest expense of \$1,633.

The future minimum lease obligations and net present value of these minimum lease payments as of December 31, 2018, were as follows:

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Year Ending	Business- Type <u>Activities</u>
2018	\$ 354,373
2019	356,234
2020	356,234
2021	335,732
2022	324,572
2023-2027	649,299
2028-2033	300,958
2034-2036	<u>131,845</u>
Total minimum lease payments	2,809,247
Less amount representing interest	<u>(451,877)</u>
Present value of minimum lease payments	<u><u>\$ 2,357,370</u></u>

Authorized but Unissued Debt

At December 31, 2018, the Subdistrict A had authorized but unissued debt of \$9,000,000. Subdistrict A anticipates issuing debt during 2019 in the amount of \$9,000,000.

NOTE 7 - FUND EQUITY

At December 31, 2018, the District reported the following classifications of fund equity.

Nonspendable Fund Balance

The nonspendable fund balance in the General Fund in the amount of \$3,268 is comprised of prepaid amounts which are not in spendable form.

Restricted Fund Balance

The restricted fund balance in the General Fund in the amount of \$13,096 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 11).

The restricted fund balance in the Conservation Trust Fund in the amount of \$623 represents unspent Conservation Trust Fund receipts which are restricted for parks and recreation purposes.

The restricted fund balance in the Subdistrict A Debt Service Fund in the amount of \$52,705 is restricted for the future payment of debt service on debt which is anticipated to be issued by the Paint Brush Hills Metropolitan District Subdistrict A.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Assigned Fund Balance

The assigned fund balance in the General Fund in the amount of \$38,229 is comprised of amounts assigned by the Board of Directors by a resolution to eliminate the projected budgetary deficit in the subsequent year's budget.

Unassigned Fund Balance Deficit

The unassigned fund balance deficit of (\$1,601) in the Subdistrict A Operations Special Revenue Fund is expected to be eliminated by reimbursements from developers in 2019.

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, 2018, the District had invested in capital assets of \$1,064,369 for the governmental activities and \$11,380,208 for the business-type activities for a combined net investment in capital assets of \$12,444,577.

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, 2018 as follows:

Restricted for:	
Emergencies	\$ 13,096
Parks and recreation	623
Debt service	<u>52,705</u>
	<u><u>\$ 66,424</u></u>

NOTE 9 – RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as may be amended from time to time, the District may be 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, 2018. 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, 2018**

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 – 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 2018, 119 single family equivalent tap connections were sold leaving a total of 213 unsold single family equivalent tap connections.

NOTE 11 - 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.

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
FUND BALANCE - BUDGET AND ACTUAL
SUBDISTRICT A DEBT SERVICE FUND
Year Ended December 31, 2018**

	Original and Final Adopted Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 38,129	\$ 38,129	\$ -
Specific ownership taxes	5,154	4,818	(336)
Net investment income	10	318	308
Total Revenues	<u>43,293</u>	<u>43,265</u>	<u>(28)</u>
EXPENDITURES			
Treasurer's fees	572	572	-
Total Expenditures	<u>572</u>	<u>572</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	42,721	42,693	(28)
FUND BALANCE - BEGINNING OF YEAR	<u>10,006</u>	<u>10,012</u>	<u>6</u>
FUND BALANCE - END OF YEAR	<u>\$ 52,727</u>	<u>\$ 52,705</u>	<u>\$ (22)</u>

PAINT BRUSH HILLS METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
WATER AND WASTEWATER FUND
Year Ended December 31, 2018

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
Water - base fees	299,150	299,150	317,681	18,531
Water-church	4,200	4,200	95	(4,105)
Water-residential	500,000	500,000	566,078	66,078
Water-school	75,000	75,000	68,272	(6,728)
Wastewater-church	288	288	288	-
Wastewater-residential	58,392	58,392	61,566	3,174
Wastewater-school	1,152	1,152	1,680	528
Underdrain	-	586	586	-
Street Lighting	-	1,916	1,916	-
Penalties	-	10,235	10,235	-
Meters	29,000	29,000	59,270	30,270
Inspection Fees	5,000	5,000	1,950	(3,050)
Tap Fees	450,000	450,000	784,438	334,438
Transfer Fees	5,000	5,000	7,250	2,250
Developer expenditure reimbursement	-	28,703	28,703	-
Interest	1,600	1,600	1,943	343
Tank Rental-Antennas	5,700	5,700	6,528	828
Bulk water sales	-	39,582	39,582	-
Insurance reimbursement	-	18,619	18,619	-
Other operating revenue	-	18,912	18,912	-
Proceeds from sale of capital assets	-	493	493	-
Lease purchase proceeds	-	160,251	160,251	-
Developer contributions-well rehabilitation	-	402,862	402,862	-
Transfer in	-	120	120	-
Total Revenues	1,434,482	2,116,761	2,559,318	442,557
EXPENDITURES				
Operating:				
District Manager wages	38,000	38,000	36,672	1,328
Employee wages	175,840	175,840	190,590	(14,750)
Payroll taxes	12,500	12,500	18,086	(5,586)
457b plan contributions	5,000	5,000	6,442	(1,442)
Health insurance	31,650	31,650	33,270	(1,620)
District Manager and Operator phone allowances	2,900	2,900	2,209	691
Employee training	9,000	9,000	972	8,028
Insurance	-	31,478	31,478	-
Legal	10,000	10,000	35,363	(25,363)
Miscellaneous	2,000	2,000	425	1,575
Dues and subscriptions	-	275	275	-
Maintenance shop utilities	-	666	666	-
Telephone	2,000	2,000	972	1,028
Office technology and website	-	6,581	6,581	-
Engineer	25,000	25,000	18,356	6,644
Engineer-Developer	-	13,726	13,726	-
Analytical testing	10,000	10,000	13,241	(3,241)
Chemical/equipment	11,000	11,000	12,632	(1,632)
Miscellaneous supplies and tools	15,000	15,000	10,441	4,559
Safety equipment	5,000	5,000	2,030	2,970
OPS certification and training	2,000	2,000	3,231	(1,231)
Billing expense	7,500	7,500	18,248	(10,748)
Meters-residential repairs and replacement	50,140	119,868	119,868	-
Bulk water purchases	31,000	31,000	30,903	97
Inspection services-Developer	-	15,067	15,067	-

(Continued)

PAINT BRUSH HILLS METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
WATER AND WASTEWATER FUND
Year Ended December 31, 2018
(Continued)

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
Tap fees remitted-Outside District entities	116,000	188,000	188,000	-
SCADA system maintenance	-	16,650	16,650	-
Collection system repairs and maintenance	30,000	30,000	24,686	5,314
Storage and Port-O-Let fees (pumphouse)	300	300	70	230
Pumphouse maintenance	5,000	5,000	15,181	(10,181)
Well Repairs and maintenance	25,000	25,000	1,067	23,933
Storage tank repairs and maintenance	50,000	50,000	17,680	32,320
Roadway and waterline repairs	50,000	50,000	20,852	29,148
Street light utilities	-	1,289	1,289	-
Utilities	150,000	196,398	196,398	-
Vehicle maintenance and repair	5,000	5,000	14,322	(9,322)
Wastewater-collection expense	50,000	50,000	17,129	32,871
Capital outlay:				
Capital-heavy equipment/vehicles	28,500	87,954	87,954	-
Storage tanks, SCADA and booster	141,000	188,774	188,774	-
Well construction and rehabilitation	63,000	506,247	506,247	-
Debt service:				
FSB lease purchase (9/1/16)-building-principal	21,867	21,867	21,518	349
FSB lease purchase (9/1/16)-building-interest	23,526	23,526	23,802	(276)
FSB lease purchase (12/9/16)-building-principal	7,703	34,625	34,625	-
FSB lease purchase (12/9/16)-building-interest	8,288	7,518	7,518	-
FSB lease purchase-principal	205,118	205,118	204,383	735
FSB lease purchase-interest	46,910	46,910	47,116	(206)
FSB Ford Escape lease purchase-interest	17,500	837	837	-
FSB Ford F-250 lease purchase-interest	-	793	793	-
SCADA system lease purchase-principal	-	11,388	11,388	-
SCADA system lease purchase-interest	-	1,633	1,633	-
Contingency	100,000	-	-	-
	<u>1,590,242</u>	<u>2,337,878</u>	<u>2,271,656</u>	<u>66,222</u>
NET CHANGE IN FUNDS AVAILABLE	(155,760)	(221,117)	287,662	508,779
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>434,998</u>	<u>388,206</u>	<u>388,206</u>	<u>-</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 279,238</u>	<u>\$ 167,089</u>	<u>\$ 675,868</u>	<u>\$ 508,779</u>
FUNDS AVAILABLE IS CALCULATED AS FOLLOWS:				
Current assets			\$ 989,123	
Current liabilities			(591,711)	
Add back current portion of capital lease obligations			<u>278,456</u>	
			<u>\$ 675,868</u>	

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND WASTEWATER FUND
Year Ended December 31, 2018**

Enterprise Fund revenues - budgetary basis	\$	2,559,318
Less lease purchase proceeds		(160,251)
Contributed water and sewer lines		2,409,674
		2,409,674
Revenues per Statements of Revenues, Expenses and Changes in Net Position		4,808,741
Enterprise Fund expenditures - budgetary basis		2,271,656
Less principal paid on capital lease obligations		(271,914)
Less capital outlay		(782,975)
Add depreciation and amortization		379,377
		379,377
Expenses per Statements of Revenues, Expenses and Changes in Net Position		1,596,144
Change in net position per Statements of Revenues, Expenses and Changes in Net Position	\$	3,212,597

OTHER INFORMATION

**PAINT BRUSH HILLS METROPOLITAN DISTRICT
SUMMARY OF ASSESSED VALUATION , MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2018**

Paint Brush Hills Metropolitan District

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied Operations	Property Taxes		Percentage Collected to Levied
			Levied	Collected	
2016	\$ 16,488,770	22.107	\$ 364,517	\$ 364,957	100.1%
2017	\$ 17,681,870	18.063 (A)	\$ 319,388	\$ 319,384	100.0%
2018	\$ 19,105,130	19.813 (B)	\$ 378,530	\$ 378,530	100.0%

Estimated for
year ending
December 31,
2019 \$ 21,257,170 19.902 **(C)** \$ 423,060

Paint Brush Hills Metropolitan District Subdistrict A

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied Debt Service	Property Taxes		Percentage Collected to Levied
			Levied	Collected	
2016	\$ -	0.000	\$ -	\$ -	N/A
2017	\$ 223,230	40.000	\$ 8,929	\$ 8,929	100.0%
2018	\$ 953,220	40.000	\$ 38,129	\$ 38,129	100.0%

Estimated for
year ending
December 31,
2019 \$ 2,581,040 40.000 \$ 103,242

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

(B) - Net of temporary mill levy reductoin of 2.294 mills.

(C) - Net of temporary mill levy reductoin of 2.205 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.