

**PAINT BRUSH HILLS  
METROPOLITAN DISTRICT**

**Financial Statements**

**December 31, 2011**

# PAINT BRUSH HILLS METROPOLITAN DISTRICT

## ANNUAL FINANCIAL REPORT

*Year Ended December 31, 2011*

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Paint Brush Hills Metropolitan District  
El Paso County, Colorado

We have audited the accompanying basic financial statements of Paint Brush Hills Metropolitan District as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of Paint Brush Hills Metropolitan District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paint Brush Hills Metropolitan District, as of December 31, 2011, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Paint Brush Hills Metropolitan District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Paint Brush Hills Metropolitan District's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and legal compliance and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Dazzio & Plutt, LLC*

September 25, 2012

**PAINT BRUSH HILLS METROPOLITAN DISTRICT**

**STATEMENT OF NET ASSETS**

**December 31, 2011**

**(With Comparative Actual Amounts as of December 31, 2010)**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash And Investments - Unrestricted	\$ 277,105	\$ 136,795
Cash And Investments - Restricted	250,000	250,000
Accounts Receivable - Service Fees	106,343	119,118
Property Taxes Receivable	334,327	375,670
Total Current Assets	<u>967,775</u>	<u>881,583</u>
<b>Other Assets</b>		
Loan Issuance Costs, Net of Accumulated Amortization	<u>19,539</u>	<u>21,014</u>
<b>Capital Assets</b>		
Capital Assets, Not Being Depreciated	754,512	1,569,455
Capital Assets, Net of Accumulated Depreciation	7,003,518	7,464,134
Water Rights, Net of Accumulated Amortization	3,060,073	3,096,762
Total Capital Assets	<u>10,818,103</u>	<u>12,130,351</u>
<b>Total Assets</b>	<u>11,805,417</u>	<u>13,032,948</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	9,148	23,015
Interest Payable	1,308	2,069
Deferred Property Tax Revenue	334,327	375,670
Notes Payable, Current Portion	149,972	143,036
Total Current Liabilities	<u>494,755</u>	<u>543,790</u>
<b>Noncurrent Liabilities</b>		
Notes Payable	<u>2,496,336</u>	<u>2,646,301</u>
Total Liabilities	<u>2,991,091</u>	<u>3,190,091</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	5,026,665	6,244,252
Restricted:		
Debt Service	250,000	250,000
Parks and Recreation	5,720	11,373
Emergency Reserve	34,700	32,651
Unrestricted	<u>3,497,241</u>	<u>3,304,581</u>
Total Net Assets	<u>\$ 8,814,326</u>	<u>\$ 9,842,857</u>

The accompanying notes are an integral part of the financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

**For the Year Ended December 31, 2011**

**(With Comparative Totals for the Year Ended December 31, 2010)**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Service Fees:		
Base Charges	\$ 116,337	\$ 44,140
Water	438,859	436,912
Wastewater	192,768	183,557
Inspection and Meter Fees	3,283	8,400
Conservation Trust Fund	9,370	9,029
	<hr/>	<hr/>
Total Operating Revenues	760,617	682,038
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Water and Wastewater Operations	333,098	380,261
Administration, Parks and General	388,784	349,046
Depreciation	249,120	240,286
Amortization of Water Rights	36,689	36,689
	<hr/>	<hr/>
Total Operating Expenses	1,007,691	1,006,282
	<hr/>	<hr/>
Operating Loss	(247,074)	(324,244)
	<hr/>	<hr/>
<b>Nonoperating Revenues (Expenses)</b>		
Property Taxes	363,254	363,157
Specific Ownership Taxes	33,046	34,909
Grant Revenue	30,660	-
Net Investment Income	577	840
Insurance Recovery	71,086	-
Other	7,047	10,821
Interest Expense	(122,156)	(122,262)
Amortization of Loan Issue Costs	(1,475)	(1,475)
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	382,039	285,990
	<hr/>	<hr/>
<b>Income (Loss) Before Contributions and Special Item</b>	134,965	(38,254)
Tap Fees	-	5,628
Special Item (see Note 9)	(1,163,496)	-
	<hr/>	<hr/>
<b>Change In Net Assets</b>	(1,028,531)	(32,626)
	<hr/>	<hr/>
<b>Net Assets, Beginning</b>	9,842,857	9,875,483
	<hr/>	<hr/>
<b>Net Assets, Ending</b>	\$ 8,814,326	\$ 9,842,857
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The accompanying notes are an integral part of the financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT**

**STATEMENT OF CASH FLOWS**

**For the Year Ended December 31, 2011**

**(With Comparative Totals for the Year Ended December 31, 2010)**

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 764,022	\$ 649,667
Cash Payments to Suppliers for Goods and Services	(735,749)	(732,545)
Conservation Trust Fund Receipts	9,370	9,029
Other Cash Receipts	7,047	10,821
Net Cash Provided (Used) by Operating Activities	<u>44,690</u>	<u>(63,028)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Property Taxes Levied for Operations	363,254	363,157
Specific Ownership Taxes	33,046	34,909
Net Cash Provided by Noncapital Financing Activities	<u>396,300</u>	<u>398,066</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Grants Received	30,660	-
Insurance Recovery	71,086	-
Capital Contributions - Tap Fees	-	5,628
Purchases of Property and Equipment	(137,057)	(70,566)
Note Principal Payments	(143,029)	(143,606)
Note Interest Payments	(122,917)	(122,339)
Net Cash (Used) by Capital and Related Financing Activities	<u>(301,257)</u>	<u>(330,883)</u>
<b>Cash Flows from Investing Activities</b>		
Interest Received	577	840
Net Cash Provided by Investing Activities	<u>577</u>	<u>840</u>
Increase in Cash and Cash Equivalents	140,310	4,995
Cash and Cash Equivalents, Beginning	386,795	381,800
Cash and Cash Equivalents, Ending	<u>\$ 527,105</u>	<u>\$ 386,795</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>		
Operating Loss	\$ (247,074)	(324,244)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Depreciation and Amortization	285,809	276,975
Other Cash Receipts	7,047	10,821
Changes in Assets and Liabilities:		
Accounts Receivable	12,775	(23,342)
Accounts Payable	(13,867)	(3,238)
Total Adjustments	<u>291,764</u>	<u>261,216</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 44,690</u>	<u>\$ (63,028)</u>

The accompanying notes are an integral part of the financial statements.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

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**Note 1 – Definition of Reporting Entity**

The Paint Brush Hills Metropolitan District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized by recorded order and decree of the District Court for the County of El Paso on December 15, 1986, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by the El Paso County. The District's service area boundaries are entirely located within the unincorporated portion of El Paso County (the County).

The District was established principally to coordinate the acquisition and financing of public improvements, including streets, traffic and safety controls, water and sanitation improvements, stormwater drainage improvements, safety protection, mosquito control and parks and recreation (the Improvements). The District has dedicated much of the public improvements to the County for ownership and operations and maintenance. The District has retained its responsibility for providing water and sewer service and maintaining parks and recreation improvements.

The District has no employees and all operations and administrative functions are contracted.

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.

The District is not financially accountable to any other organization, nor is the District a component unit of any other primary governmental entity.

**Note 2 – Summary of Significant Accounting Policies**

The District follows GASB pronouncements. Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, all proprietary funds are mandated to follow Financial Accounting Standards Board (FASB) Standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option to continue to follow all new FASB standards or not to apply future standards. The District has chosen not to apply FASB standards issued after November 30, 1989.

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

**Basis of Accounting**

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and loans is recorded as a reduction in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received.

**Operating Revenues and Expenses**

The District distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Fund Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

**Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds a public hearing 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.

**Cash Equivalents**

For purposes of the Statements of Cash Flows, the District considers cash deposits, U.S. Government Obligations and other 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 and easements, water rights, treatment plants, distribution systems, computers, equipment and vehicles, are reported by the District. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. 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.

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 fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Plant	40 years
Park and Recreation Facilities	20 years
Equipment	5 years
Vehicles	4 years



**PAINT BRUSH HILLS METROPOLITAN DISTRICT**  
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Water rights, if contributed, are recorded at the fair market value at the date of acquisition. The cost of purchased water rights includes acquisition cost and legal and engineering costs related to the development and augmentation of those rights. All other costs, including costs incurred for the protection of those rights, are expensed. Water rights, if exhaustible, are amortized over the estimated useful life using the straight-line method. Water rights that have a perpetual life are not amortized.

**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 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 in the year they are levied and measurable. The deferred property tax revenue are recorded as revenue in the period they are available or collected.

**Amortization**

Note issuance costs are being amortized over the term of the note using the straight-line method.

**Capital Contributions**

Tap fees collected by the District are recorded as capital contributions.

**Net Assets and Fund Equity**

Net Assets

The District has net assets consisting of three components - invested in capital assets, net of related debt, restricted and unrestricted.

Invested in capital assets (net of related debt) is intended to reflect the portion of net assets that are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Assets are subject to restrictions by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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The District reports the following restricted balances:

Restricted for Debt Service

Represents the portion of net assets that are legally restricted to payment of principal and interest on long-term debt maturing in future years.

Restricted for Parks and Recreation

Represents the balance of funds remaining from the Conservation Trust (State Lottery) Fund proceeds.

Restricted for TABOR Emergencies

Net assets are restricted as Emergency Reserves as required by Article X, Section 20 of the Constitution of the State of Colorado at December 31, 2011 (see Note 12).

Unrestricted Net Assets represent assets that do not have any third party limitations on their use.

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

**Use of Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. An example of such an estimate that has been made by management is depreciation expense.

**Note 3 – Cash and Investments**

**Cash and Investments**

Cash and investments as of December 31, 2011 are classified in the accompanying financial statements as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash	\$ 275,953	\$ 250,000	\$ 525,953
Investments	1,152	-	1,152
	<u>\$ 277,105</u>	<u>\$ 250,000</u>	<u>\$ 527,105</u>

Cash and investments are presented on the statement of net assets at fair value.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

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**Cash Deposits**

Custodial credit risk

Custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The Colorado Public Deposit Protection Act (PDPA) governs the investment of public funds. PDPA requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels (\$250,000) 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% of the aggregate uninsured deposits. The institution's internal records identify the collateral by depositor and as such, these deposits are considered to be uninsured but collateralized. The State Regulatory Commissions 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, 2011, the District's deposits amounting to \$540,367 were insured by federal depository insurance and \$5,739 was collateralized with securities held by third parties in the District's name, and consequently were not exposed to custodial credit risk.

**Investments**

The District's formal investment policy is to follow 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
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools
- Certain reverse repurchase agreements
- Certain securities lending agreements
- Certain corporate bonds

At December 31, 2011, the District had the following investments.

COLOTRUST Local Government Investment Pool      \$1,152

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NOTES TO THE FINANCIAL STATEMENTS  
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As of December 31, 2011, the District has invested \$1,152 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned by the pool are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the pool. Investments of the pool consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury Notes. The District's investment in COLOTRUST is rated AAAM by Standard and Poor's.

**Note 4 – Restricted Cash and Investments**

Certain proceeds from the Lease Purchase Agreement with Wells Fargo Bank, amounting to \$250,000, are classified as restricted cash and investments on the statement of net assets because their use is limited only to prevent deficiencies of any lease payment.

**Note 5 – Capital Assets**

An analysis of the changes in capital assets for the year ended December 31, 2011 follows:

	<b>Balance December 31, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2011</b>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 1,569,455	\$ -	\$ (900,000)	\$ 669,455
Construction in Process	-	85,057	-	85,057
<b>Total Capital Assets Not Being Depreciated</b>	<b>1,569,455</b>	<b>85,057</b>	<b>(900,000)</b>	<b>754,512</b>
<b>Capital Assets Being Depreciated:</b>				
Plant	9,296,365	52,000	(491,620)	8,856,745
Parks and Recreation Facilities	222,232	-	-	222,232
Vehicles	15,709	-	-	15,709
Office Equipment	6,380	-	-	6,380
Other Equipment	9,013	-	-	9,013
<b>Total Capital Assets Being Depreciated</b>	<b>9,549,699</b>	<b>52,000</b>	<b>(491,620)</b>	<b>9,110,079</b>
<b>Less Accumulated Depreciation for:</b>				
Plant	(2,016,030)	(236,174)	228,124	(2,024,080)
Parks and Recreation Facilities	(41,012)	(11,112)	-	(52,124)
Vehicles	(15,677)	(31)	-	(15,708)
Office Equipment	(6,380)	-	-	(6,380)
Other Equipment	(6,466)	(1,803)	-	(8,269)
<b>Total Accumulated Depreciation</b>	<b>(2,085,565)</b>	<b>(249,120)</b>	<b>228,124</b>	<b>(2,106,561)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>7,464,134</b>	<b>(197,120)</b>	<b>(263,496)</b>	<b>7,003,518</b>
<b>Total Capital Assets, Net</b>	<b>\$ 9,033,589</b>	<b>\$ (112,063)</b>	<b>\$ (1,163,496)</b>	<b>\$ 7,758,030</b>

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**Note 6 – Water Rights**

An analysis of the changes in capital assets for the year ended December 31, 2011 follows:

	<b>Balance December 31, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2011</b>
<b>Water Rights</b>				
Original Water Rights (a)	\$ 3,574,200	\$ -	\$ -	\$ 3,574,200
Denver and Dawson (a)	713,400	-	-	713,400
Meridian (b)	180,000	-	-	180,000
<b>Total Water Rights</b>	<b>4,467,600</b>	<b>-</b>	<b>-</b>	<b>4,467,600</b>
<b>Less Accumulated Amortization for:</b>				
Original Water Rights (a)	(1,328,034)	(29,555)	-	(1,357,589)
Denver and Dawson (a)	(42,804)	(7,134)	-	(49,938)
<b>Total Accumulated Amortization</b>	<b>(1,370,838)</b>	<b>(36,689)</b>	<b>-</b>	<b>(1,407,527)</b>
<b>Total Water Rights, Net</b>	<b>\$ 3,096,762</b>	<b>\$ (36,689)</b>	<b>\$ -</b>	<b>\$ 3,060,073</b>

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

(b) Considered to be inexhaustible and are not amortized

**Note 7 – Note Payable**

The summary of the note payable for the year ended December 31, 2011 is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Note Payable	\$ 2,789,337	\$ -	\$ 143,029	\$ 2,646,308	\$ 149,972

**\$3,500,000 Lease Purchase Agreement** (the “Note”). The Note was issued on March 29, 2005 to finance and refinance costs of certain property and equipment and to establish a reserve fund.

The Note bears interest at the rate of 4.45% per annum. Payments of principal and interest are payable in monthly installments in the amount of \$22,162, commencing on April 25, 2005 and ending on March 25, 2025.

The Note is secured by and payable solely from Net Pledged Revenues (total revenues less operating expenses) as defined in the lease agreement.

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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The lease purchase agreement contains various restrictive covenants and requirements:

The District is required to fund a Debt Service Reserve Fund in the amount of \$250,000, which was entirely funded at December 31, 2011.

The District must be in compliance with a requirement in the Note that requires Net Pledged Revenues be at least 125% of the (A) annual lease payments plus (B) annual debt service requirements for all additional indebtedness. For the year ended December 31, 2011, the District was in compliance with this requirement.

Annual debt service requirements for the note are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 149,972	\$ 115,974	\$ 265,946
2013	156,533	109,412	265,945
2014	163,744	102,202	265,946
2015	171,286	94,659	265,945
2016	178,923	87,022	265,945
2017-2021	1,027,327	302,401	1,329,728
2022-2025	798,523	61,165	859,688
	<u>\$ 2,646,308</u>	<u>\$ 872,835</u>	<u>\$ 3,519,143</u>

**Note 8 – Water and Sewer Tap Obligations**

The District obtained its water rights in 1987 when it entered into an agreement to issue 851 water and sewer tap connections to the then developer of Falcon Hills, the District’s geographical service area, in exchange for receiving the developer’s water rights, which were valued at that time at \$3,574,200. The market values of each water and sewer connection at the time of the agreement were \$1,200 and \$3,000, respectively. The rights to those connections were acquired by Six Ninety Nine Properties, LLC, when it purchased the undeveloped portions of Falcon Hills from the prior developer in 1999. Six Ninety Nine subsequently transferred those rights to TPS Fund, LLC (“TPS”), a sister company to Six Ninety Nine. Both Six Ninety Nine and TPS (the TPS Parties) were related parties of the District due to the fact that 100% of the beneficial owners of those companies served on the board of directors of the District until May 2008, with one or more of the beneficial owners remaining on the board of directors until September 2009, at which time the last remaining beneficial owner resigned from the board of directors. As successor to the prior developer, Six Ninety Nine and its transferees, including TPS, had the right under the agreement with the District to sell the water and sewer connections to third parties. As the connections were sold, the District’s obligation to issue connections was reduced by the original value of each connection and a corresponding amount was recorded to contributed capital.

On August 26, 2009, after 395 of the 851 water and sewer connections were sold, the District entered into an agreement with the TPS Parties which provided that the proceeds from the sale of each of the remaining 456 taps would be distributed sixty percent (60%) to TPS and forty percent (40%) to the

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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District. Additionally, the balance of \$58,000 owed by a third party for three additional taps (to be considered separately from the 456 remaining taps) will be paid to and retained by the District. Further, as a result of this settlement, the remaining \$1,915,200 of the previously recorded liability was treated as capital contributions for the year ended December 31, 2009.

During the years ended December 31, 2011 and 2010, zero and one of the TPS water and sewer connections were sold, respectively, leaving the District with an obligation to share revenue with respect to the 455 remaining taps at December 31, 2011.

**Note 9 – Paint Brush Hills Wastewater Treatment Facility (WWTF) Transfer**

On August 1, 2011, Woodmen Hills Metropolitan District (WHMD) and the District entered into an agreement whereby the District transferred its ownership interest in the WWTF and the associated discharge permit to WHMD. WHMD agreed to take over full ownership and control of the WWTF and began directly billing the District's customers for wastewater treatment service. The District continues to own and maintain its own wastewater collection system and bills its customers accordingly.

The District recorded a loss of \$1,163,496 associated with the transfer of assets to WHMD. The loss is recorded as a special item in the Statement of Revenues, Expenses and Changes in Net Assets.

Additionally, the District agreed to pay WHMD a flat fee of \$2,000 for every new wastewater tap that is subject to the 2009 TPS Parties agreement discussed in Note 8. For any new wastewater taps issued that are not subject to the 2009 agreement, the District agreed to collect an amount equal to or greater than WHMD's then-current wastewater tap fee and remit 36% of WHMD's then-current wastewater tap fee to WHMD.

**Note 10 – Sewer Tap Obligations**

The District was granted an exclusive perpetual easement to a parcel of land on which is located the Paint Brush Hills Wastewater Treatment Facility. As consideration for the easement, the District agreed to provide the grantor 500 SFE sewer taps. The exclusive rights to the perpetual easement on the parcel of land where the wastewater treatment facility is located are reflected on the balance sheet as land and were originally recorded based on the total value of the SFE sewer taps to be provided. As the taps were provided to the grantor in satisfaction of the obligation, the liability was reduced and a corresponding amount was recorded to contributed capital. During the year ended December 31, 2006, the liability was fully satisfied. As part of the agreement transferring its ownership interest in the wastewater treatment facility to WHMD, the District assigned the easement to WHMD. The cost of the easement was originally valued at \$900,000 and is included in the \$1,163,495 loss associated with the transfer of the Wastewater Treatment Facility to WHMD (see Note 9).

**PAINT BRUSH HILLS METROPOLITAN DISTRICT  
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**Note 11 – 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 natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). 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.

The District pays annual premiums to the Pool for general and automobile liability, public officials, auto physical damage and worker's compensation coverage. In the event aggregate 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 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 which 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 and qualification as an Enterprise will require judicial interpretation.



## **SUPPLEMENTAL INFORMATION**

**Paint Brush Hills Metropolitan District**

**Schedule of Revenues, Expenditures and Changes  
in Funds Available - Budget and Actual (Budgetary Basis)**

**For the Year Ended December 31, 2011**

**(With Comparative Totals for the Year Ended December 31, 2010)**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>	<b>2010 Actual</b>
<b>Revenues</b>				
Service Fees:				
Base Charges	\$ 125,100	\$ 116,337	\$ (8,763)	\$ 44,140
Water	371,780	438,859	67,079	436,912
Wastewater	223,560	192,768	(30,792)	183,557
Property Taxes	370,035	363,254	(6,781)	363,157
Specific Ownership Taxes	36,000	33,046	(2,954)	34,909
Conservation Trust Fund	10,000	9,370	(630)	9,029
Grant Revenue	55,660	30,660	(25,000)	-
Inspection and Meter Fees	3,500	3,283	(217)	8,400
Inclusion Fees	20,000	-	(20,000)	-
Insurance Recovery	-	71,086	71,086	-
Tap Fees	5,630	-	(5,630)	5,628
Interest Income	-	577	577	840
Tank Rental	3,600	3,300	(300)	3,300
Other	4,250	3,747	(503)	7,521
Total Revenue	<u>1,229,115</u>	<u>1,266,287</u>	<u>37,172</u>	<u>1,097,393</u>
<b>Expenditures</b>				
<b>Operations</b>				
Analytical, Chemical & Equipment	23,500	14,284	9,216	9,876
Billing, Software, Meters	17,500	24,306	(6,806)	19,801
Bulk Water Purchases	32,800	32,728	72	32,787
Pumphouse Maintenance and Well Repairs	2,000	4,703	(2,703)	21,619
Roadway and Waterline Repairs	2,000	22,762	(20,762)	2,328
Storage Tank Repairs and Maintenance	-	1,200	(1,200)	-
Utilities	128,000	127,747	253	129,107
Vehicle Fuel, Maintenance and Repairs	11,000	9,063	1,937	6,503
Wastewater Operations	99,800	33,770	66,030	90,322
Water Operations	73,000	62,535	10,465	67,918
Total Operations	<u>389,600</u>	<u>333,098</u>	<u>56,502</u>	<u>380,261</u>
<b>Administration, Parks and General</b>				
Audit and Accounting	8,750	6,705	2,045	8,750
Bank Charges	2,000	1,158	842	1,838
Board Meetings and Elections	8,000	8,395	(395)	9,005

(Continued)

**Paint Brush Hills Metropolitan District**

**Schedule of Revenues, Expenditures and Changes  
in Funds Available - Budget and Actual (Budgetary Basis)**

**For the Year Ended December 31, 2011**

**(With Comparative Totals for the Year Ended December 31, 2010)**

(Continued)

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>	<b>2010 Actual</b>
<b>Administration, Parks and General (continued)</b>				
Dues and Subscriptions	\$ 2,100	\$ 1,785	\$ 315	\$ 1,791
General Engineering	1,000	1,748	(748)	998
Legal	185,000	238,528	(53,528)	183,342
Management and Bookkeeping	90,600	65,908	24,692	70,885
Office Expenditures	-	18,195	(18,195)	19,893
Parks Repairs and Maintenance	35,400	33,714	1,686	37,751
Insurance	17,500	12,648	4,852	14,793
Total Administration	<u>350,350</u>	<u>388,784</u>	<u>(38,434)</u>	<u>349,046</u>
<b>Capital Improvements</b>	<u>254,000</u>	<u>137,057</u>	<u>116,943</u>	<u>70,566</u>
<b>Lease Purchase Payments</b>				
Principal	142,953	143,029	(76)	143,606
Interest	122,993	122,156	837	122,262
Total Lease Purchase Payments	<u>265,946</u>	<u>265,185</u>	<u>761</u>	<u>265,868</u>
<b>Total Expenditures</b>	<u>1,259,896</u>	<u>1,124,124</u>	<u>135,772</u>	<u>1,065,741</u>
<b>Excess Revenues Over (Under) Expenditures</b>	(30,781)	142,163	172,944	31,652
<b>Funds Available - Beginning of Year</b>	<u>339,583</u>	<u>480,829</u>	<u>141,246</u>	<u>449,177</u>
<b>Funds Available - End of Year</b>	<u>\$ 308,802</u>	<u>\$ 622,992</u>	<u>\$ 314,190</u>	<u>\$ 480,829</u>
<b>Reconciliation of Actual (Budgetary Basis) to Statement of Revenues, Expenses and Changes in Fund Net Assets</b>				
<b>Revenue (Budgetary Basis)</b>		<u>\$ 1,266,287</u>		<u>\$ 1,097,393</u>
<b>Expenditures (Budgetary Basis)</b>		1,124,124		1,065,741
Depreciation		249,120		240,286
Amortization of Water Rights		36,689		36,689
Loan Issue Costs Amortization		1,475		1,475
Loan Principal Payments		(143,029)		(143,606)
Capital Improvements		(137,057)		(70,566)
Special Item-Loss on Disposition of Plant		1,163,496		-
<b>Total Expenses per Statement of Revenues, Expenses and Changes in Net Assets</b>		<u>2,294,818</u>		<u>1,130,019</u>
<b>Change in Net Assets per Statement of Revenues, Expenses and Changes in Net Assets</b>		<u>\$ (1,028,531)</u>		<u>\$ (32,626)</u>