

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



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Independent Auditor's Report

Board of Directors

Murphy Creek Metropolitan District No. 3

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Murphy Creek Metropolitan District No. 3 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Murphy Creek Metropolitan District No. 3 as of December 31, 2016, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
August 29, 2017

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2016

	General <u>Fund</u>	Debt <u>Service</u>	Total	<u>Adjustments</u>	Statement of <u>Net Position</u>
ASSETS					
Investments - restricted	\$ -	\$ 12,643	\$ 12,643	\$ -	\$ 12,643
Receivable County Treasurer	-	7,233	7,233	-	7,233
Property taxes receivable	<u>667,677</u>	<u>1,307,151</u>	<u>1,974,828</u>	-	<u>1,974,828</u>
Total Assets	<u>\$ 667,677</u>	<u>\$ 1,327,027</u>	<u>\$ 1,994,704</u>	-	<u>1,994,704</u>
LIABILITIES					
Accrued interest on bonds	\$ -	\$ -	\$ -	159,997	159,997
Due to District #1	-	2	2	-	2
Long-term liabilities:					
Unpaid interest	-	-	-	4,328,370	4,328,370
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,600,000</u>	<u>27,600,000</u>
Total Liabilities	<u>-</u>	<u>2</u>	<u>2</u>	<u>32,088,367</u>	<u>32,088,369</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	<u>667,677</u>	<u>1,307,151</u>	<u>1,974,828</u>	-	<u>1,974,828</u>
Total Deferred Inflows of Resources	<u>667,677</u>	<u>1,307,151</u>	<u>1,974,828</u>	-	<u>1,974,828</u>
FUND BALANCE					
Restricted:					
Debt service	<u>-</u>	<u>19,874</u>	<u>19,874</u>	<u>(19,874)</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>19,874</u>	<u>19,874</u>	<u>(19,874)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 667,677</u>	<u>\$ 1,327,027</u>	<u>\$ 1,994,704</u>		
NET POSITION					
Restricted for:					
Debt service				19,874	19,874
Unrestricted				<u>(32,088,367)</u>	<u>(32,088,367)</u>
Total Net Position (Deficit)				<u>\$(32,068,493)</u>	<u>\$(32,068,493)</u>

The notes to the financial statements are an integral part of these statements.

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	<u>Debt</u> <u>Service</u>	<u>Total</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
EXPENDITURES				
Treasurer's fees	\$ 19,395	\$ 19,395	\$ -	\$ 19,395
Paying agent fees	1,500	1,500	-	1,500
Bond interest expense	<u>1,363,288</u>	<u>1,363,288</u>	<u>552,961</u>	<u>1,916,249</u>
 Total Expenditures	 <u>1,384,183</u>	 <u>1,384,183</u>	 <u>552,961</u>	 <u>1,937,144</u>
GENERAL REVENUES				
Property taxes	1,292,258	1,292,258		1,292,258
Specific ownership taxes	99,073	99,073	-	99,073
Interest income	<u>2,605</u>	<u>2,605</u>	<u>-</u>	<u>2,605</u>
 Total General Revenues	 <u>1,393,936</u>	 <u>1,393,936</u>	 <u>-</u>	 <u>1,393,936</u>
 NET CHANGE IN FUND BALANCES	 9,753	 9,753	 (9,753)	
 CHANGES IN NET POSITION			 (543,208)	 (543,208)
FUND BALANCE/NET POSITION:				
BEGINNING OF YEAR - RESTATED	<u>10,121</u>	<u>10,121</u>	<u>(31,535,406)</u>	<u>(31,525,285)</u>
END OF YEAR	<u>\$ 19,874</u>	<u>\$ 19,874</u>	<u>\$ (32,078,614)</u>	<u>\$ (32,068,493)</u>

The notes to the financial statements are an integral part of these statements.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Murphy Creek Metropolitan District No. 3 (“the District”), located in the City of Aurora (“Aurora”) in Arapahoe County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on November 16, 1998, as a quasi-municipal corporation and political subdivision of the State of Colorado established under the State of Colorado Special District Act. The District was established to provide funding to Murphy Creek Metropolitan District No. 1 (“Operating District”) for the construction, operation and maintenance of facilities and improvements through the issuance of bonds. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

The District was organized concurrently with Murphy Creek Metropolitan Districts Nos. 1, 2 and 4 (“Districts Nos. 1, 2 and 4”). Effective November 27, 2001, District No. 4 was dissolved and all property previously within its boundaries was included in District No. 3. District No. 4 was reorganized on December 5, 2005. On August 8, 2016 Aurora approved an Amended and Restated Consolidated Service Plan (“Service Plan”), and approved a Service Plan for Murphy Creek Metropolitan District No. 5. Murphy Creek Metropolitan Districts Nos. 1, 2, 3, 4 and 5, (“Districts”) have the power to provide water, sanitation, streets, traffic and safety controls, television relay and translator services, transportation and park and recreation improvements and other related improvements for the benefit of taxpayers and service users within the Districts’ boundaries. The Consolidated Service Plan requires the Districts to convey the streets, water, sanitation and storm drainage improvements to Aurora for ownership and maintenance.

District No. 1 is intended to service as the “operating district”, while District Nos. 2, 3, 4 and 5 are intended to service as the “taxing districts”. The operating district is responsible for providing the day to day operations and administrative management of all five Districts.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements December 31, 2016

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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 funds are reported as separate columns in the fund financial statements.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements December 31, 2016

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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund. The District had no activity in the General Fund in 2016 except for certifying a mill levy for collection year 2017.

Debt Service Fund - The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the Local Government Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. 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. The appropriation is at the total fund expenditures level and lapses at year end.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements December 31, 2016

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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 minimum number of bank accounts. 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.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify 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 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 one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements December 31, 2016

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 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 taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally 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 inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the Debt Service Fund in the amount of \$19,874 is restricted for the payment of the debt service costs associated with the Limited Tax General Obligation Bond Series 2006 (see Note 3).

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements
December 31, 2016

Assigned Fund Balance

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

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts.

For the classification of Governmental Funds balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. At December 31, 2016 the District did not have any amounts to report in net investment in capital assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Investments

As of December 31, 2016, investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Investments	<u>\$ 12,643</u>

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements
December 31, 2016

Cash and investments as of December 31, 2016 consist of the following:

Investments – CSAFE	<u>\$ 12,643</u>
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Investments

Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District has no recurring fair value measurements as of December 31, 2016.

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

As of December 31, 2016, the District had the following investment:

The local government investment pool Colorado Surplus Asset Fund Trust (“CSAFE”), is rated AAAM by Standard and Poor’s with an average weighted maturity of under 60 days. CSAFE is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE’s portfolio pursuant to custodian agreements. The custodian acts as safekeeping agent for CSAFE’s investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodians’ internal records identify the investments owned by CSAFE. At December 31, 2016, the District had \$12,643 invested in CSAFE, all held by a trustee.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements December 31, 2016

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Note 3: Long Term Debt

\$27,600,000 Limited Tax General Obligation Series 2006 – On February 15, 2006, the District issued \$27,600,000 of Limited Tax General Obligation Bonds Series 2006 (“Series 2006 Bonds”) for the purpose of paying a portion of the costs of improvements and facilities within the District and refunding the Series 2004 Limited Tax General Obligation Bonds. The Bonds are secured by a limited mill levy not to exceed 48.944 mills adjusted for changes in the method of calculating assessed valuation as determined by the State of Colorado, as well as development fee revenues and a portion of specific ownership taxes collected by the District. The Bonds are term bonds with maturity dates of December 1, 2026 and December 1, 2035. The Bonds maturing in 2026 carry an interest rate of 6.00% and the Bonds maturing 2035 carry an interest rate of 6.125% with interest payable semiannually on June 1 and December 1.

The Bonds are subject to redemption prior to maturity on December 1, 2015 and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

The District has not established a revenue base sufficient to pay the District's debt service requirements. During 2010, 2011, 2012, 2013, 2014, 2015 and 2016, the District was unable to pay the full amount of interest due, or make the required principal payments of \$85,000, \$260,000, \$355,000, \$380,000, \$440,000, \$470,000, and \$540,000 respectively, due under the indenture. The unpaid interest of \$4,328,370 is reflected in the government-wide financial statements.

Failure to make scheduled principal and interest payments as a result of insufficient ad valorem tax revenues from the limited mill levy does not constitute an event of default under the Indenture of Trust. For 2017, the District's budget indicates an additional potential shortfall of \$281,000.

Due to the uncertainty of the timing of the principal and interest payments on the Series 2006 Bonds, a schedule of the timing of these payments is not available.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements
December 31, 2016

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Retirements	Balance 12/31/2016	Due Within One Year
Limited Tax GO Refunding					
Bonds Series 2006	\$ 27,600,000	\$ -	\$ -	\$ 27,600,000	\$ -
Unpaid Interest - Bonds	3,778,735	549,635	-	4,328,370	-
	<u>\$ 31,378,735</u>	<u>\$ 549,635</u>	<u>\$ -</u>	<u>\$ 31,928,370</u>	<u>\$ -</u>

On November 3, 1998, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$75,000,000 at an interest rate not to exceed 18% per annum and repayment terms not to exceed 20 years after the date of issuance. On May 2, 2000, a majority of qualified electors of the District authorized the issuance of indebtedness in an additional amount not to exceed \$55,750,000 at an interest rate not to exceed 18% per annum with repayment terms not to exceed 40 years after date of issuance. On November 7, 2000, a majority of qualified electors of the District authorized the issuance of indebtedness in an additional amount not to exceed \$145,300,000 at an interest rate not to exceed 18% per annum with repayment terms not to exceed 40 years after date of issuance. The Service Plan allows for the issuance of up to \$150,000,000 for all five Districts; however, the District shall not individually issue Debt in excess of \$41,415,000. The District has not budgeted to issue any additional debt in 2017.

Note 4: Agreements with Other Governments

Intergovernmental Agreement

On August 8, 2016, the District, Districts Nos. 1, 2, 4, 5, and Aurora entered into an Amended and Restated Intergovernmental Agreement (“IGA”) as required by the required by the Service Plan. Under this agreement, the Districts must obtain the approval of the Aurora City Council prior to any inclusion of property in or exclusion of property from the boundaries of the Districts other than as set forth in the District’s service plan and for any consolidation with any other special districts. Prior to the issuance of any privately placed debt, the District shall obtain a certificate from an External Financial Advisor certifying to the reasonableness of the interest rate and the structure. Pursuant to the IGA and the Service Plan, the District is required to levy a regional mill levy and to remit it to an Aurora Regional Improvement (ARI) Authority or to the City under certain circumstances and after approval by voters at an election to collect District operations revenues through taxes which has not yet occurred.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements December 31, 2016

The Service Plan requires the Districts to dedicate certain public improvements to the City of Aurora or other appropriate jurisdiction or owners association for ownership and maintenance. The District is not authorized to operate or maintain any part of the improvements, other than park and recreation improvements, drainage improvements including detention and retention ponds, trickle channels and all necessary or proper equipment or appurtenances thereto unless the provision of such operation and maintenance is pursuant to an intergovernmental agreement with the City.

Facilities Construction and Service Agreement (“Service Contract”) – To implement the Consolidated Service Plan, the District has an intergovernmental agreement with Murphy Creek Metropolitan District Nos. 2, 3 and 4. The agreement remains in full force until such time as each of the terms and conditions of the agreement has been performed in their entirety or until the agreement is terminated by mutual written agreement by all Districts.

The Operating District is to own, operate, maintain, and construct the facilities benefiting all Districts. To the extent that Murphy Creek Metropolitan District Nos. 2, 3 and 4 are to benefit, they will pay the total capital costs and service costs of operation and maintenance of such facilities.

On April 26, 2017, the District entered into a Termination of District Facilities and Construction Service Agreement. See Note 8 for further details.

Note 5: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer 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 will require judicial interpretation.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements December 31, 2016

On November 3, 1998, a majority of the District's electors authorized the District to be permitted to impose a mill levy, unlimited as to rate or amount to increase such levy from year to year and collect, expend or retain annual District revenues generated from such mill levy or any other legally available revenues in 1999 and each year thereafter through the year 2019 inclusive for payment of operations and maintenance and other general or administrative expenses of the District without regard to any expenditure, revenue raising or other limitation contained in paragraph 29-1-301, C.R.S. or any other law.

On November 3, 1998, the voters also approved the District to be permitted to maintain fiscal year spending and collect annual District revenues from sources not excluded from fiscal year spending in 1999 and each year thereafter as a voter-approved revenue change without regard to any expenditure, revenue-raising or their limitation contained within Article X, Section 20 of the Colorado Constitution or any other statutory or constitutional expenditure or revenue-raising limitation.

Note 6: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("the Pool") which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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 7: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Long-term liabilities such as bonds payable, accrued bond interest payable, are not due and payable in the current period and, therefore, are not in the funds.

MURPHY CREEK METROPOLITAN DISTRICT NO.3

Notes to Financial Statements
December 31, 2016

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and
- 2) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long term liabilities.

Note 8: Subsequent Event

On April 26, 2017, the District along with District No's 1, 2 and 4 entered into a Termination of District Facilities Construction and Service Agreement ("Termination Agreement") whereby the Districts agreed to terminate the Facilities Construction and Service Agreement. The Districts agreed that: 1.) all outstanding operational fees imposed by District No. 1 would be remitted to District No. 1 to offset prior costs of District No. 1; 2.) the Capital Facilities Fees collected within the boundaries of District 3 shall continue to be considered to be pledged revenue for the Series 2006 Bonds in satisfaction of the terms of the Indenture before being utilized for the completion of any Remaining District 3 Facilities as described in the agreement. Upon completion of the Remaining District 3 Facilities and Capital Facility Fees Revenue being held by District No. 1 shall be remitted to the District and any future Capital Facility Fee revenue collected after the completion of the Remaining District 3 Facilities have been paid in full shall be retained by the District. The District will operate independently of Districts Nos. 1, 2, 4 and 5. All assets owned by District No. 1 that are within the boundaries of the District will be transferred to the District.

SUPPLEMENTAL INFORMATION

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND

For the Year Ended December 31, 2016

	Original/Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 1,292,360	\$ 1,292,258	\$ (102)
Specific ownership taxes	90,465	99,073	8,608
Debt payment short fall	226,080	-	(226,080)
Interest income	<u>300</u>	<u>2,605</u>	<u>2,305</u>
 Total Revenues	 <u>1,609,205</u>	 <u>1,393,936</u>	 <u>(215,269)</u>
 EXPENDITURES			
Bond interest	1,585,162	1,363,288	221,874
Paying agent fees	5,000	1,500	3,500
Treasurers' fees	<u>19,385</u>	<u>19,395</u>	<u>(10)</u>
 Total Expenditures	 <u>1,609,547</u>	 <u>1,384,183</u>	 <u>225,364</u>
 EXCESS OF REVENUES OVER OVER EXPENDITURES	 (342)	 9,753	 10,095
 FUND BALANCE:			
BEGINNING OF YEAR	<u>928</u>	<u>10,121</u>	<u>9,193</u>
 END OF YEAR	 <u>\$ 586</u>	 <u>\$ 19,874</u>	 <u>\$ 19,288</u>

The notes to the financial statements are an integral part of these statements.