

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Financial Statements

Year Ended December 31, 2021

with

Independent Auditor's Report

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Board of Directors
Murphy Creek Metropolitan District No 4
Arapahoe County, Colorado

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of Murphy Creek Metropolitan District No 4 (the "District"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Murphy Creek Metropolitan District No 4 as of December 31, 2021, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in them Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control—related matters that we identified during the audit.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States 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 opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental 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. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Wipfli LLP

Wipfli LLP
Lakewood, Colorado

April 25, 2022

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments - restricted	\$ -	\$ -	\$ 14,007,171	\$ 14,007,171	\$ -	\$ 14,007,171
Property taxes receivable	154	706	-	860	-	860
Due from District No. 1	-	19,112	-	19,112	-	19,112
Total Assets	<u>\$ 154</u>	<u>\$ 19,818</u>	<u>\$ 14,007,171</u>	<u>\$ 14,027,143</u>	<u>-</u>	<u>14,027,143</u>
LIABILITIES						
Due to County	\$ -	\$ 19,112	\$ -	\$ 19,112	-	19,112
Accrued interest on bonds	-	-	-	-	145,341	145,341
Long-term liabilities:						
Due in more than one year	-	-	-	-	21,638,000	21,638,000
Total Liabilities	<u>-</u>	<u>19,112</u>	<u>-</u>	<u>19,112</u>	<u>21,783,341</u>	<u>21,802,453</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	154	706	-	860	-	860
Total Deferred Inflows of Resources	<u>154</u>	<u>706</u>	<u>-</u>	<u>860</u>	<u>-</u>	<u>860</u>
FUND BALANCE						
Restricted:						
Emergencies	2,685	-	-	2,685	(2,685)	-
Capital Projects	-	-	14,007,171	14,007,171	(14,007,171)	-
Unassigned	(2,685)	-	-	(2,685)	2,685	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>14,007,171</u>	<u>14,007,171</u>	<u>(14,007,171)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 154</u>	<u>\$ 19,818</u>	<u>\$ 14,007,171</u>	<u>\$ 14,027,143</u>		
NET POSITION						
Restricted for:						
Emergencies					2,685	2,685
Capital Projects					14,007,171	14,007,171
Unrestricted					(21,786,026)	(21,786,026)
Total Net Position (Deficit)					<u>\$ (7,776,170)</u>	<u>\$ (7,776,170)</u>

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

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

For the Year Ended December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	Statement of Activities
EXPENDITURES						
Bond interest	\$ -	\$ -	\$ -	\$ -	\$ 145,341	\$ 145,341
Bond issuance costs	-	-	763,606	763,606	-	763,606
Treasurer's fees	11	-	-	11	-	11
Transfer to District No. 1	<u>789</u>	<u>-</u>	<u>6,867,946</u>	<u>6,868,735</u>	<u>-</u>	<u>6,868,735</u>
Total Expenditures	<u>800</u>	<u>-</u>	<u>7,631,552</u>	<u>7,632,352</u>	<u>145,341</u>	<u>7,777,693</u>
GENERAL REVENUES						
Property taxes	749	-	-	749	-	749
Specific ownership taxes	51	-	-	51	-	51
Interest income	<u>-</u>	<u>-</u>	<u>723</u>	<u>723</u>	<u>-</u>	<u>723</u>
Total General Revenues	<u>800</u>	<u>-</u>	<u>723</u>	<u>1,523</u>	<u>-</u>	<u>1,523</u>
				-		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(7,630,829)	(7,630,829)	(145,341)	(7,776,170)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	<u>-</u>	<u>-</u>	<u>21,638,000</u>	<u>21,638,000</u>	<u>(21,638,000)</u>	<u>-</u>
Total Other Financing Source (Uses)	<u>-</u>	<u>-</u>	<u>21,638,000</u>	<u>21,638,000</u>	<u>(21,638,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	14,007,171	14,007,171	(14,007,171)	
CHANGES IN NET POSITION					(7,776,170)	(7,776,170)
FUND BALANCE/NET POSITION:						
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,007,171</u>	<u>\$ 14,007,171</u>	<u>\$ (21,783,341)</u>	<u>\$ (7,776,170)</u>

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2021

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 748	\$ 749	\$ 1
Specific ownership taxes	<u>60</u>	<u>51</u>	<u>(9)</u>
Total Revenues	<u>808</u>	<u>800</u>	<u>(8)</u>
EXPENDITURES			
Treasurer's fees	11	11	-
Transfer to District No. 1	<u>797</u>	<u>789</u>	<u>8</u>
Total Expenditures	<u>808</u>	<u>800</u>	<u>8</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Murphy Creek Metropolitan District No. 4 (“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 December 1, 2005, as a quasi-municipal corporation and political subdivision of the State of Colorado established under the State of Colorado Special District Act. Murphy Creek Metropolitan District No. 1 (“District No. 1”) was established to manage the financing, construction, operation and maintenance of the public facilities located within District No. 1, Murphy Creek Metropolitan District No. 2 (“District No. 2”), Murphy Creek Metropolitan District No. 3 (“District No. 3”) and the District.. The District is governed by an elected Board of Directors (the “Board”). The District’s main source of revenues is property taxes.

On August 8, 2016, Aurora approved an Amended and Restated Consolidated Service Plan for the District, and District No. 1, District No. 2 and District No. 3 and a Service Plan for Murphy Creek Metropolitan District No. 5 (“District No. 5”) (the “Service Plan”). The District, District No. 1, and District No. 2 and District No. 5 are collectively referred to herein as the “Districts”. The Districts and District No. 3 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’ and District No. 3’s boundaries. The Service Plan requires the Districts and District No. 3 to convey the streets, water, sanitation and storm drainage improvements to Aurora for ownership and maintenance.

The Service Plan contemplates District No. 1 serving as the “operating district”, with the District and District No. 2, District No. 3 and District No. 5 serving as the “taxing districts”. The operating district is responsible for providing the day to day operations and administrative management of all five districts. This arrangement was originally memorialized in the Service Contract among the District and District No. 1, District No. 2 and District No. 3 (See Note 5). On April 26, 2017, the District along with District No. 1, District No. 2 and District No. 3 entered into a Termination Agreement whereby the Service Contract was terminated (See Note 5). District No. 3 now operates separately from the Districts. The Districts entered into a separate District Administrative Services Agreement on April 26, 2017, wherein the parties thereto confirm District No. 1’s role as the operating district and the District, District No. 2 and District No. 5 (collectively, “District Nos. 2, 4, and 5”) serve as the taxing districts (See Note 5). This agreement was partially terminated on August 26, 2021, as it relates to District No. 4.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

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. 4

Notes to Financial Statements December 31, 2021

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.

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

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

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 Board holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The Board 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.

In September 2021, the District amended its total appropriations in the Capital Projects Fund from \$2,000,000 to \$30,000,000 primarily due to expected capital expenses.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and investments, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2021, 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.

Deposits and Investments

The District's cash and investments 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 under 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. 4

Notes to Financial Statements December 31, 2021

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets 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 using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2021.

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 balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$2,685 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Capital Projects Fund in the amount of \$14,007,171 is restricted for the payment of the costs for capital improvements within the District.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

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. The constraint may be removed or changed only through formal action of the Board.

Assigned Fund Balance

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

Unassigned Fund Balances

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 Fund 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.

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.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

Note 2: Cash and Investments

As of December 31, 2021, cash is classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments – restricted	\$ <u>14,007,171</u>
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Cash and investments as of December 31, 2021, consist of the following:

Investments – COLOTRUST	\$ <u>14,007,171</u>
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Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“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 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 is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District does not have a formal policy for deposits. As of December 31, 2021, none of the District’s deposits were exposed to custodial credit risk.

Investments

Investment Valuation

Certain investments are measured at fair value 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. The District’s investment is not required to be categorized within the fair value hierarchy. This investment’s value is calculated using the net asset value method (“NAV”) per share.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

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.

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.

As of December 31, 2021, the District had the following investment:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the COLOTRUST. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. COLOTRUST operates similarly to a money market fund with each share maintaining a value of \$1.00. COLOTRUST offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2021, the District had \$14,007,171 invested in COLOTRUST.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

Note 3: Long Term Obligations

\$21,638,000 General Obligation Limited Tax Bonds, Series 2021(3)

On November 12, 2021, the District issued \$21,638,000 of General Obligation Limited Tax Bonds, Series 2021(3), ("Series 2021(3) Bonds") dated November 12, 2021, for the purpose of financing or reimbursing a portion of the costs of acquiring, constructing, and installing certain public infrastructure improvements related to the Development and paying the costs of the issuance of the Bonds. The 2021(3) Bonds bear interest at the rate of 5%, payable annually on each December 1, commencing on December 1, 2022, and mature on December 1, 2051. The 2021(3) Bonds are subject to early redemption at the option of the District commencing December 1, 2026, with a redemption premium until December 1, 2029. The 2021(3) Bonds are limited tax "cash flow" general obligations of the District secured by and payable solely from the Pledged Revenue, consisting of moneys derived by the District from the following sources: the Required Mill Levy, the Capital Fees, the portion of Specific Ownership Tax related to the Required Mill Levy and any other moneys determined by the District.

Events of Default as defined in the Series 2021(3) Bond Indenture are 1) the failure of the District to impose the Required Mill levy, or to apply the Pledged Revenue as required by the Indenture, 2) the default by the District in the performance or observance of any other of the covenants, agreements, or conditions of the Indenture or the Bond Resolution, and failure to remedy the same after notice thereof pursuant to the Indenture, and 3) the filing of a petition under the federal bankruptcy laws or other applicable laws seeking to adjust the obligations represented by the Bonds. Failure to pay the principal of or interest on the Series 2021(3) Bonds when due shall not, of itself, constitute an Event of Default under the Indenture. Remedies available in the Event of Default include 1) receivership, 2) suit for judgment, and 3) other suits. Acceleration of the Series 2016 Bonds is not an available remedy for an Event of Default.

Funding and Reimbursement Agreement (Operations and Maintenance)

On September 20, 2021, the District and Murphy Creek Development, Inc. (the "Developer") entered into the Funding and Reimbursement Agreement ("FRA"). Pursuant to the FRA, the Developer agrees to loan to the District sums of money, not to exceed the aggregate of \$50,000 per year for four years, up to a total of \$200,000. These funds shall be available to the District through December 31, 2025. Thereafter, the Developer may, at its option, agree to renew this obligation for future years. Interest at a rate of 6.5% shall accrue on advances made under this agreement. As of December 31, 2021, no amounts were due under this agreement.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

Public Improvements Acquisition and Reimbursement Agreement

On June 18, 2021, the District and Murphy Creek LLC (“MC”), Harvest Investors LLC (“HI”), Yale/MC LLC (“YMC”), and Lennar Colorado LLC (“Lennar”) entered into the Public Improvements Acquisition and Reimbursement Agreement (the “PIARA”). The PIARA established the terms and conditions for the acquisition of certain Public Improvements financed and constructed or caused to be constructed by Lennar that are to be owned by the District or another government entity, and the reimbursement of Certified District Eligible Costs incurred by Lennar for the Off-Site Public Improvements to Lennar and for the On-Site Public Improvements to the MC, HI, and YMC. As of December 31, 2021, no amounts were due under this agreement.

The following is an analysis of changes in long-term obligations for the period ended December 31, 2021:

	Balance 1/1/2021	Additions	Reductions	Balance 12/31/2021	Current Portion
<u>General Obligation Bonds:</u>					
Series 2021(3)	\$ -	\$ 21,638,000	\$ -	\$ 21,638,000	\$ -
	-	21,638,000	-	21,638,000	-
	<u>\$ -</u>	<u>\$ 21,638,000</u>	<u>\$ -</u>	<u>\$ 21,638,000</u>	<u>\$ -</u>

Because of the uncertainty of timing of payments under the Series 2021(3) Bonds, no related schedule of expected principal and interest payments is presented.

Debt Authorization

On November 1, 2005, a majority of the eligible electors of the District authorized the issuance of indebtedness in an amount not to exceed \$60,000,000 at an interest rate not to exceed 18% per annum and repayment terms not to exceed 20 years after the date of issuance. On November 8, 2016, a majority of the eligible electors of the District authorized the issuance of indebtedness in an additional amount not to exceed \$150,000,000 at an interest rate not to exceed 18% and repayment terms not to exceed 40 years after the date of issuance. As of December 31, 2021, the District has \$188,362,000 remaining voted authorization. The District has not budgeted to issue any debt in 2022.

Note 4: Related Parties

All of the Board members are owners or members of or are otherwise associated with the Developer or Murphy Creek LLC, the co-Developer and major landowner within the District. The District has issued promissory notes to the Developer (see Note 4). Management believes that all potential conflicts, if any, have been disclosed to the Board.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

Note 5: Agreements with Other Governments

Intergovernmental Agreement with Aurora

On August 8, 2016, the Districts, District No. 3 and Aurora entered into an Amended and Restated Intergovernmental Agreement (“IGA”), as required by the Service Plan. Under the IGA, *inter alia*, 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 Service Plan and for any consolidation with any other special districts. Prior to the issuance of any privately placed debt, the District is required to 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 Aurora under certain circumstances.

The Service Plan requires the Districts to dedicate certain public improvements to Aurora or other appropriate jurisdiction or owner’s 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 Aurora.

District Administrative Services Agreement

On April 26, 2017, the District entered into a District Administrative Services Agreement with District No. 1, District No. 2, and District No. 5 (the “District Administrative Services Agreement”). The District Administrative Services Agreement confirms District No. 1’s role as the operating district and District No. 2, District No. 4 and District No.5 serve as the taxing districts. The purpose of the District Administrative Services Agreement is to set forth the rights and obligations of the taxing districts to fully fund the operating district, and the operating district to provide administrative services on behalf of the Districts. This agreement was partially terminated on August 25, 2021, as it relates to the District.

Aurora Regional Improvement Authority No. 5 Establishment Agreement

On November 10, 2008, certain metropolitan districts entered into the Aurora Regional Improvement Authority No. 5 Establishment Agreement (“Authority Establishment Agreement”) which created an independent legal entity, separate and distinct from the participating districts. The Aurora Regional Improvement Authority No. 5 (“Authority”) was organized for the purpose of planning, designing, constructing, installing, acquiring, relocating, redeveloping or financing the Regional Improvements designated in ARI Master Plans. Pursuant to the Second Amendment to the Authority Establishment Agreement, the District as well as Murphy Creek Metropolitan District Nos. 1, 2, 4 and 5 were included as members under the Authority Establishment Agreement.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

Note 6: 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.

On December 1, 2005 and again on November 8, 2016, the voters 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 2005 and each year thereafter as a voter-approved revenue change without regard to any expenditure, revenue-raising or other limitation contained within Article X, Section 20 of the Colorado Constitution or any other statutory or constitutional expenditure or revenue-raising limitation.

Note 7: 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.

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2021

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 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

- 1) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as bonds and developer advances payable and accrued interest payable are not due and payable in the current period and, therefore, are not in the funds.

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

- 1) governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) 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;
- 3) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 4) 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.

SUPPLEMENTAL INFORMATION

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended December 31, 2021

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Interest income	\$ -	\$ -	\$ 723	\$ 723
Total Revenues	-	-	723	723
EXPENDITURES				
Bond issuance costs	-	1,000,000	763,606	236,394
Transfer to District No. 1	-	-	6,867,946	(6,867,946)
Capital improvements	<u>2,000,000</u>	<u>29,000,000</u>	<u>-</u>	<u>29,000,000</u>
Total Expenditures	<u>2,000,000</u>	<u>30,000,000</u>	<u>7,631,552</u>	<u>22,368,448</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,000,000)	(30,000,000)	(7,630,829)	22,369,171
OTHER FINANCING SOURCES (USES) OVER EXPENDITURES				
Developer advances	2,000,000	-	-	-
Bond proceeds	<u>-</u>	<u>30,000,000</u>	<u>21,638,000</u>	<u>(8,362,000)</u>
Total Other Financing Sources (Uses)	<u>2,000,000</u>	<u>30,000,000</u>	<u>21,638,000</u>	<u>(8,362,000)</u>
NET CHANGE IN FUND BALANCE	-	-	14,007,171	14,007,171
FUND BALANCE:				
BEGINNING OF YEAR	-	-	-	-
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,007,171</u>	<u>\$ 14,007,171</u>

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 4

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED December 31, 2021

Year Ended <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property <u>Tax Levy</u>	Assessed Value <u>% Change</u>	Mills Levied				Total Property Tax		Percent Collected to Levied
			<u>Fund</u>	<u>Contractual</u>	<u>Debt Service</u>	<u>Total</u>	<u>Levied</u>	<u>Collected</u>	
2017	\$ 7,193	0.00%	48.944	0.000	0.000	48.944	\$ 352	\$ 353	100.27%
2018	\$ 6,079	-15.49%	55.277	0.000	0.000	55.277	\$ 336	\$ 337	100.29%
2019	\$ 6,079	0.00%	55.277	0.000	0.000	55.277	\$ 336	\$ 337	100.29%
2020	\$ 13,446	121.19%	55.664	0.000	0.000	55.664	\$ 748	\$ 749	100.07%
2021	\$ 13,446	0.00%	55.664	0.000	0.000	55.664	\$ 748	\$ 749	100.07%
Estimated for year ending December 31, 2022	\$ 13,941	3.68%	10.000	1.000	50.664	61.664	\$ 860		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.