

MORGAN HILL METROPOLITAN DISTRICT NO. 1

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2021



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**MORGAN HILL METROPOLITAN DISTRICT NO. 1
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Morgan Hill Metropolitan District No. 1
Town of Erie, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying the basic financial statements of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 1, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Morgan Hill Metropolitan District No. 1's basic financial statements as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 1, as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Morgan Hill Metropolitan District No. 1 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the basic financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Morgan Hill Metropolitan District No. 1's ability to continue as a going concern for twelve months beyond the basic financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. 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 basic 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 basic 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 basic 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 Morgan Hill Metropolitan District No. 1'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 basic financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Morgan Hill Metropolitan District No. 1'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.

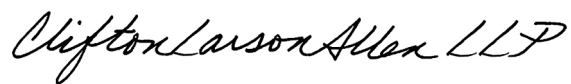
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Board of Directors
Morgan Hill Metropolitan District No. 1

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management 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 opinion on the basic financial statements is not affected by this missing information.



CliftonLarsonAllen LLP

Broomfield, Colorado
April 11, 2022

MORGAN HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Governmental Activities
ASSETS	
Cash and Investments	\$ 279,606
Restricted Cash	150,926
Due from Other Governments	648
Prepaid Items	3,892
Property Tax Receivable	171,878
Construction in Progress	54,442
Total Assets	661,392
LIABILITIES	
Current Liabilities Due in Less Than One Year:	
Accounts Payable and Retainage Payable	72,814
Total Liabilities	72,814
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	171,878
Total Deferred Inflows of Resources	171,878
NET POSITION	
Net Investment in Capital Assets	54,442
Restricted for TABOR	4,919
Restricted for Capital Projects	82,571
Unrestricted	274,768
Total Net Position	\$ 416,700

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

Functions/Programs	Expenses	Program Revenue Charges for Services	Net Revenue (Expense) and Change in Net Position Governmental Activities
Governmental Activities:			
Public Works	\$ 3,688,466	\$ -	\$ (3,688,466)
General Government	96,332	-	(96,332)
	\$ 3,784,798	\$ -	\$ (3,784,798)
General Revenues:			
			155,948
			7,812
			201
			Intergovernmental Revenue -
			District No. 2 and District No. 3
			1,678,115
			1,842,076
			Change in Net Position
			(1,942,722)
			Net Position - Beginning of Year
			2,359,422
			Net Position - End of Year
			\$ 416,700

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
DECEMBER 31, 2021**

	<u>General Fund</u>
ASSETS	
Cash and Investments	\$ 279,606
Restricted Cash	150,926
Due from Other Governments	648
Prepaid Items	3,892
Property Tax Receivable	171,878
Total Assets	<u>\$ 606,950</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts Payable and Retainage Payable	\$ 72,814
Total Liabilities	<u>72,814</u>
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	171,878
Total Deferred Inflows of Resources	<u>171,878</u>
FUND BALANCE	
Nonspendable for Prepaid Items	3,892
Restricted for TABOR	4,919
Restricted for Capital Projects	82,571
Unassigned	270,876
Total Fund Balance	<u>362,258</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 606,950</u>

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2021**

Total Fund Balance - Total Governmental Fund \$ 362,258

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund balance sheet:

Capital Assets, Not Being Depreciated 54,442

Net Position of Governmental Activities \$ 416,700

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2021**

	General Fund
REVENUES	
Property Taxes	\$ 155,948
Specific Ownership Taxes	7,812
Net Investment Income	201
Intergovernmental - Morgan Hill	
Metropolitan Districts No. 2 and No. 3	1,678,115
Total Revenues	1,842,076
EXPENDITURES	
Current:	
Treasurer Fees	2,340
Audit	12,075
Accounting	21,573
Insurance	2,882
Legal	25,203
Letter of Credit Fees	6,251
Miscellaneous	9,656
Intergovernmental - Morgan Hill	
Metropolitan Districts No. 2 and No. 3	16,352
Capital Outlay	2,059,007
Total Expenditures	2,155,339
NET CHANGE IN FUND BALANCES	(313,263)
Fund Balance - Beginning of Year	675,521
FUND BALANCE - END OF YEAR	\$ 362,258

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balance - Total Governmental Fund	\$ (313,263)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental fund reports capital outlays as expenditures. However, for government activities, those capital outlays other than noncapitalizable items are shown in the statement of net position at cost.

Capital Outlay	2,059,007
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Transfers of capital improvements to other entities decrease net position in the statement of activities. This transaction is not reported in the governmental fund as it is not a current use of financial resources.

	<u>(3,688,466)</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (1,942,722)</u></u>
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MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 DEFINITION OF REPORTING ENTITY

Morgan Hill Metropolitan District No. 1 (the District) is a quasi-municipal corporation and political subdivision of the state of Colorado that was organized by order and decree of the District Court in Weld County on January 20, 2009. The District operates under a Consolidated Service Plan with Morgan Hill Metropolitan District No. 2 (District No. 2) and Morgan Hill Metropolitan District No. 3 (District No. 3) approved by the Town of Erie (Town) on August 25, 2008. Pursuant to the Service Plan, District No. 2 and District No. 3, the financing districts, are intended to provide funding to the District, the operating district, for construction, operation and maintenance of the public improvements. The District is responsible for day-to-day operations and administrative management of all three Districts and management of district improvements.

The District was established for the design, acquisition, construction, and completion of public improvements, including streets, traffic and safety controls and devices, transportation services, park and recreation, water, mosquito and pest control and sanitation facilities, generally located in the collector roadway system, services and programs. The Service Plan requires the District to convey the constructed improvements to the Town or HOA for ownership and maintenance.

The District has no employees and all services 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 for any other organization, nor is the District a component unit of any other primary governmental entity, including District No. 2, District No. 3, and the Town.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

The statement of net position reports all financial resources of the District. The difference between the assets, liabilities, and deferred outflows and inflows of resources of the District is reported as a net position.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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 related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Construction in progress is shown as an increase in assets.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are intergovernmental revenue and property taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. 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.

The District reports the following major governmental fund:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government.

Budgets

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

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are recorded initially as deferred inflows of resources in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets consist entirely of construction projects in progress that will be conveyed to the Town or HOA once completed. Therefore, no depreciation is calculated on these assets. Interest incurred during construction is not capitalized.

Fund Balance and Net Position

Net position is reported in the governmental activities and is classified as restricted, unrestricted, or net investment in capital assets. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. Net investment in capital assets includes the values of capital assets less any associated debt that remains outstanding. As of December 31, 2021, fund balances of governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not spendable in form or because they are legally or contractually required to be maintained intact. This includes amounts that are not expected to be converted to cash, for example, prepaid amounts.

Restricted – amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed – amounts that are subject to a purpose constraint imposed by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified or rescinded only through resolutions approved by the Board.

Assigned – amounts that are subject to a purpose constraint that represents an intended use established by the District in its budget process. The purpose of the assignment must be narrower than the purpose of the General Fund.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance and Net Position (Continued)

Unassigned – represents the residual classification for the District’s General Fund and could report a surplus or deficit. In 2021, the General Fund reported an unassigned fund balance of \$270,876.

Restricted Fund Balance

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the state of Colorado. In compliance with this requirement, \$4,919 of the General Fund balance has been restricted.

The District has a balance of \$150,926 in cash held in escrow, which is considered restricted fund balance for capital projects reduced by the amount of accounts payable that is related to capital projects for a total restricted balance of \$82,571.

Nonspendable fund balance of \$3,892 is equal to the amount of prepaid insurance for the District that will benefit a future period.

The District’s order of fund balance spending policy is to apply expenditures against restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The District reserves the right to selectively spend unassigned fund balance.

NOTE 3 CASH AND INVESTMENTS

Cash and investments reflected on the statement of net position as of December 31, 2021 consist of the following:

Cash Deposits	\$ 13,162
Restricted Cash Held in Escrow	150,926
Investments	266,444
Total Cash and Investments	\$ 430,532

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The fair value of the collateral must be at least equal to 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’s cash deposits were covered under PDPA and not subject to custodial credit risk. At December 31, 2021, the District's cash deposits had a carrying balance of \$164,088.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2021**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments

The District has not adopted a formal investment policy; however, it follows state statutes regarding investments. The District also follows investment policies in bond or note agreements when those agreements are more restrictive than state statutes. The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States, certain U.S. government agency securities and World Bank 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 corporate bonds
- Certain securities lending agreements

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

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust *	Less than One Year	\$ 266,444

As of December 31, 2021, the District had invested \$266,444 in the Colorado Surplus Asset Fund Trust, an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAAM by Standard & Poor's and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 CONSTRUCTION IN PROGRESS

An analysis of the changes in construction in progress for the year ended December 31, 2021 follows:

	Balance at January 1, 2021	Additions	Reductions	Balance at December 31, 2021
Construction in Progress	\$ 1,683,901	\$ 2,059,007	\$ 3,688,466	\$ 54,442

It is the policy of the Town to accept the maintenance responsibility for water, sanitation, traffic and safety controls, park and recreation improvements, mosquito and pest control, transportation and other related improvements within the Town only after a probationary period following completion of construction. When the improvements enter the probationary period, the District removes the cost of construction from its statement of net position.

On December 20, 2019, Morgan Hill Metropolitan District No. 1 entered into a Relinquishment of Surface Rights Agreement with K.P. Kauffman Company, Inc. regarding specific oil and gas sites operated by KPK. The total consideration to be paid to KPK by the District for KPK’s relinquishment, extinguishment or restriction of its Surface Rights in “Section 7”, (Township 1 North, Range 68 West of the PM, County of Weld, state of Colorado) is \$50,000. At the initial closing on January 29, 2020, the District paid \$25,000 of the consideration as a partial payment. The remaining balance of \$25,000 was paid to KPK on April 2, 2020 upon completing the process of plugging the well. The \$50,000 paid to KPK for surface rights was recorded as an addition to Construction in Progress and will be reclassified to land upon completion of the real property transfer to the District. As of December 31, 2021, the balance remains in Construction in Progress.

During 2021, major conveyances to Town of Erie include public improvements associated with District 1 improvements in the total amount of \$3,688,466.

NOTE 5 RELATED PARTY

All members of the Board of Directors are employees or are associated with Bellock Construction Company, the Construction Manager and accountants for the District. During 2021, Districts No. 1, No. 2, and No. 3 had the same Board of Directors.

Construction Management Agreement

A construction management agreement was entered into during 2009 between Districts No. 1, No. 2, No. 3, and Bellock Construction Company. The agreement calls for Bellock Construction Company to provide management services of all activities related to construction projects to be completed within Morgan Hill Metropolitan Districts No. 1, No. 2 and No. 3. The agreement expires on December 31 of each year but is automatically extended for a successive annual period so long as sufficient funds have been appropriated, unless contrary action is taken.

Amounts paid to Bellock Construction Company during 2021 for construction and construction management were \$18,138 and \$30,470, respectively.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2021**

NOTE 5 RELATED PARTY (CONTINUED)

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company on April 23, 2009. Under this agreement, accounting services are provided to District No. 1, No. 2, and No. 3 at the hourly rates of Bellock Construction Company employees. During 2021, the District incurred accounting services fees in the amount of \$21,573.

NOTE 6 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenses occurred during fiscal year ended December 31, 2021:

	<u>Morgan Hill Metropolitan District No. 1</u>	<u>Morgan Hill Metropolitan District No. 2</u>	<u>Morgan Hill Metropolitan District No. 3</u>	<u>Total Revenues</u>
Morgan Hill Metropolitan:				
District No. 1	\$ -	\$ 1,678,115	\$ -	\$ 1,678,115
District No. 2	14,399	-	-	14,399
District No. 3	1,953	-	-	1,953
Total Expenditures	<u>\$ 16,352</u>	<u>\$ 1,678,115</u>	<u>\$ -</u>	<u>\$ 1,694,467</u>

NOTE 7 DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT (SERVICE CONTRACT) AND OTHER AGREEMENTS

District Facilities Construction and Service Agreement

In order to implement the Service Plan, the District entered into an intergovernmental agreement with District No. 2 and District No. 3. The agreement shall remain in full force and effect until such time as each of the terms and conditions has been performed in their entirety or until the agreement is terminated by mutual written agreement of the Districts.

District No. 1 constructed the facilities for Filing 1, benefiting the three Districts and will transfer them to the Town of Erie or HOA. District No. 2 and District No. 3 will, to the extent that they benefit, pay the capital costs and the service costs of operation and maintenance of such facilities (authorized service costs).

During 2021, District No. 3 entered into a Capital Pledge Agreement with District No. 1 and District No. 2 (the Pledged Districts). The Agreement is related to the issuance of the Series 2021A Senior Bonds and the Series 2021B Subordinate Bonds in District No. 3. The Pledged Districts agree to levy on all of the taxable property of the Pledge Districts, in addition to all other taxes, direct annual taxes in each of the years 2021 (for collection in 2022) to 2050 (for collection in 2051) to the extent necessary to provide for payment of the annual bond costs, in the amount of the required mill levy determined by District No. 3. The Under the Agreement, the District pledged 27.187 mills, a total of \$83,949, for collection in 2022.

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 7 DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT (SERVICE CONTRACT) AND OTHER AGREEMENTS (CONTINUED)

The District, District No. 2, and District No. 3 also entered into a Junior Lien Pledge Agreement related to the issuance of the Series 2021C Junior Lien Bond in District No. 3. Under the agreement, the District and District No. 2 pledge their Junior Lien Required Mill levy upon all taxable property within their boundaries. After withholding the O&M care-out, the District pledges its share of bond repayment costs. The O&M Care-out is equal to \$90,000 in 2022, with the amount increasing by 1% annually thereafter.

The District is required to fund, on an annual basis, the amount of actual service costs that it would be capable of funding through property tax revenue plus other fee revenue as determined in the annual budget. If the Districts disagree as to the amount to be paid, then the District must pay District No. 1 the amount set forth in the annual budget. During fiscal year 2017, the Colorado legislature reduced the residential assessment ratio from 7.96% to 7.20% causing the property tax mill rate for general obligation bonds and service costs to increase from 50 mills to 55.275 mills. The residential assessment ratio decreased to 7.15% in 2019 causing the mills to increase to 55.663 for property taxes to be collected in 2020. During fiscal year 2020, the Gallagher Amendment was repealed.

Warranty of Public Improvements

In 2018, Morgan Hill Investors LLC. entered into a Development Agreement with the Town of Erie. Subsequently, the agreement was assigned to CDG Morgan Hill, Inc. (the Developer). As a part of the agreement, CDG Morgan Hill, Inc. on behalf of the District, was required to enter into an Improvement Guarantee (Guarantee) for a period of time sufficient to cover the completion of the public improvements. If CDG Morgan Hill, Inc. is unable to complete the improvements then the Town of Erie has the right to call upon the Guarantee. The Guarantee could be in the form of cash, certified check, or a letter of credit.

The amount of the Guarantee shall be 115% of the total estimated costs including labor and material of all the public improvements to be constructed per the agreement. As of the date of the agreement, June 28, 2018, the estimated cost of the improvements were \$1,617,815. As of December 31, 2021, the estimated cost to complete the remaining improvements is \$110,000 and the remaining balance of the letters of credit, including the 15% contingency are \$404,454.

NOTE 8 RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2021. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery, and workers' compensation coverage to its members. Settled claims have not exceeded this coverage during the past three years.

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 8 RISK MANAGEMENT (CONTINUED)

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

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to 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 will require judicial interpretation.

On November 4, 2008, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all annual District revenue without regard to any limitations under TABOR.

REQUIRED SUPPLEMENTARY INFORMATION

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL –
GENERAL FUND
YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 155,913	\$ 155,948	\$ 35
Specific Ownership Taxes	9,355	7,812	(1,543)
Net Investment Income	-	201	201
Intergovernmental - Morgan Hill Metropolitan Districts No. 2 and No. 3	-	1,678,115	1,678,115
Total Revenues	<u>165,268</u>	<u>1,842,076</u>	<u>1,676,808</u>
EXPENDITURES			
Current:			
Treasurer Fees	2,339	2,340	(1)
Audit	12,000	12,075	(75)
Accounting	10,000	21,573	(11,573)
Insurance	3,500	2,882	618
Legal	10,000	25,203	(15,203)
Letter of Credit Fees	6,200	6,251	(51)
Miscellaneous	5,030	9,656	(4,626)
Intergovernmental - Morgan Hill Metropolitan Districts No. 2 and No. 3	3,615,750	16,352	3,599,398
Debt Service			
Interest and Other Fiscal Charges	400,000	-	400,000
Capital Outlay	497,830	2,059,007	(1,561,177)
Total Expenditures	<u>4,562,649</u>	<u>2,155,339</u>	<u>2,407,310</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(4,397,381)	(313,263)	4,084,118
OTHER FINANCING SOURCES			
Debt Proceeds	4,000,000	-	(4,000,000)
Total Other Financing Sources	<u>4,000,000</u>	<u>-</u>	<u>(4,000,000)</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(397,381)	(313,263)	84,118
Fund Balances - Beginning of Year	<u>863,017</u>	<u>675,521</u>	<u>(187,496)</u>
FUND BALANCES - END OF YEAR	<u>\$ 465,636</u>	<u>\$ 362,258</u>	<u>\$ (103,378)</u>

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