

MORGAN HILL METROPOLITAN DISTRICT NO. 3

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2021



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**MORGAN HILL METROPOLITAN DISTRICT NO. 3
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2021**

INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	4
STATEMENT OF ACTIVITIES	5
FUND FINANCIAL STATEMENTS	
BALANCE SHEET	6
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION	7
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND	8
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES	9
NOTES TO BASIC FINANCIAL STATEMENTS	10
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	25



INDEPENDENT AUDITORS' REPORT

Board of Directors
Morgan Hill Metropolitan District No. 3
Town of Erie, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 3, 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. 3's financial statements as listed in the table of contents.

In our opinion, the 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. 3, 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. 3 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 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 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. 3's ability to continue as a going concern for twelve months beyond the 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 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 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 Morgan Hill Metropolitan District No. 3'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 Morgan Hill Metropolitan District No. 3'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. 3

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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Broomfield, Colorado
May 6, 2022

MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 916,658
Restricted Cash and Investments	13,865,629
Property Taxes Receivable	312,085
Due from Other Governments	4,312
Prepaid Expenses	3,118
Construction in Progress	6,399,945
Total Assets	<u>21,501,747</u>
LIABILITIES	
Accounts Payable	158,863
Retention Payable	216,133
Accrued Interest	106,569
Noncurrent Liabilities:	
Due in More Than One Year:	
Series 2021A Limited Tax General Obligation Bonds	20,030,000
Series 2021A Limited Tax General Obligation Bonds Premium	236,323
Series 2021B Limited Tax General Obligation Bonds	5,850,000
Series 2021C Junior Lien General Obligation Limited Tax Bonds	50,001
Accrued Interest	52,016
Total Liabilities	<u>26,699,905</u>
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	312,085
Total Deferred Inflows of Resources	<u>312,085</u>
NET POSITION	
Restricted for TABOR	32,823
Unrestricted	<u>(5,543,066)</u>
Total Net Position	<u><u>\$ (5,510,243)</u></u>

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
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:			
General Government	\$ 157,768	\$ -	\$ (157,768)
Public Works	-	-	-
Interest and Related Costs on Long-Term Debt	2,171,360	-	(2,171,360)
	\$ 2,329,128	\$ -	(2,329,128)
General Revenues:			
			1,037,872
			51,957
			1,953
			4,267
			1,096,049
			(1,233,079)
			(4,277,164)
			\$ (5,510,243)

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2021**

	General Fund
ASSETS	
Cash and Investments	\$ 916,658
Restricted Cash and Investments	13,865,629
Property Tax Receivable	312,085
Due from Other Governments	4,312
Prepaid Items	3,118
Total Assets	\$ 15,101,802
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 158,863
Retention Payable	216,133
Total Liabilities	374,996
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	312,085
Total Deferred Inflows of Resources	312,085
FUND BALANCE	
Nonspendable	3,118
Restricted for:	
TABOR	32,823
Debt Service	7,860,784
Capital Projects	5,632,150
Unassigned	885,846
Total Fund Balance	14,414,721
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 15,101,802

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2021**

Total Fund Balance - Total Governmental Fund \$ 14,414,721

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.

Construction in Progress 6,399,945

Accrued interest payable is recognized for governmental activities, therefore, is not reported as a liability in the governmental fund.

(158,585)

Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet.

Series 2021A Limited Tax General Obligation Bonds (20,030,000)

Series 2021A Limited Tax General Obligation Bonds Premium (236,323)

Series 2021B Limited Tax General Obligation Bonds (5,850,000)

Series 2021C Junior Lien General Obligation Limited Tax Bonds (50,001)

(26,166,324)

Net Position of Governmental Activities

\$ (5,510,243)

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2021**

	<u>General Fund</u>
REVENUES	
Property Tax Income	\$ 1,037,872
Specific Ownership Taxes	51,957
Intergovernmental - Morgan Hill Metropolitan District No. 1	1,953
Net Investment Income	4,267
Total Revenues	<u>1,096,049</u>
EXPENDITURES	
Current:	
Audit	6,720
Accounting	38,562
Treasurer's Fee	15,568
Insurance	2,161
Letter of Credit	92,986
Miscellaneous	1,771
Debt Service:	
Principal	20,349,623
Interest and Fiscal Charges	1,342,095
Loan Origination Fees	770,968
Capital Outlay	5,760,623
Total Expenditures	<u>28,381,077</u>
DEFICIENCY OF REVENUE UNDER EXPENDITURES	(27,285,028)
OTHER FINANCING SOURCES	
Proceeds from Debt Issuance	26,166,324
Total Other Financing Sources	<u>26,166,324</u>
NET CHANGES IN FUND BALANCE	(1,118,704)
Fund Balance - Beginning of Year	<u>15,533,425</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 14,414,721</u></u>

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
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 \$ (1,118,704)

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 activities at cost.

Capital Outlay 5,760,623

The issuance of long-term debt provides current financial resources to the governmental fund, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Proceeds from Debt Issuance (26,166,324)
Payment of Principal 20,349,623

An increase in accrued interest does not have any impact on governmental fund expenditures. This transaction, however, does increase the amount of interest expense on the statement of activities.

Accrued Interest (58,297)

Change in Net Position of Governmental Activities \$ (1,233,079)

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 DEFINITION OF REPORTING ENTITY

Morgan Hill Metropolitan District No. 3 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado, was organized by order and decree of the District Court in Weld County on January 20, 2009, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Consolidated Service Plan with Morgan Hill Metropolitan District No. 1 (District No. 1), Morgan Hill Metropolitan District No. 2 (District No. 2), and Morgan Hill Metropolitan District No. 3 (District) approved by the Town of Erie on August 25, 2008. Pursuant to the Service Plan, the District, the financing district, is intended to provide funding to District No. 1, the operating district, for construction, operation, and maintenance of the public improvements. The operating district is responsible for day-to-day operations and administrative management of all three of the Districts and management of district improvements.

The District was established to provide financing 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 operation and maintenance of all other services and facilities is anticipated to be provided by other entities and not by the District.

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

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity, including District No. 1, District No. 2, and the Town of Erie.

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. 3
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 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. Increases in bonds payable are recorded as an increase in liabilities.

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.

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 revenue source susceptible to accrual is property taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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. The adopted budgets for the General Fund and Debt Service fund have been consolidated and reflected as the General Fund Budget for financial reporting purposes.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
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 instalments, 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.

Fund Balance and Net Position

Net position is reported in the governmental activities and is classified as restricted or unrestricted. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. 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.

Unassigned – represents the residual classification for the District's General Fund and could report a surplus or deficit.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, \$32,823 of the General Fund balance has been restricted.

The District has a balance of \$6,004,845 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 and retention payable for a total restricted balance of \$5,632,150.

The District has \$7,860,784 which is considered restricted fund balance for debt service.

Nonspendable fund balance of \$3,118 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 CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2021 consist of the following:

Cash Deposits	\$ 18,673
Restricted Cash Held in Escrow	6,004,845
Investments	897,985
Restricted Investments	7,860,784
Total Cash	<u><u>\$ 14,782,287</u></u>

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.

At December 31, 2021, the District's cash deposits had a carrying balance of \$6,023,518.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
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

Colorado revised statutes limit investment maturities to five years or less depending on the specific investment held unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Revenue bonds of U.S. local government, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

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

<u>Investment</u>	<u>Maturity</u>	<u>Amortized Cost</u>
Colorado Surplus Asset Fund Trust *	Less than One Year	\$ 897,985
Money Market Fund - CSAFE *	Less than One Year	7,860,784
		<u>\$ 8,758,769</u>

As of December 31, 2021, the District had \$897,985 invested 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. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

As of December 31, 2021, the District had \$7,860,784 invested in CSAFE Money Market Funds. The investment 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.

NOTE 4 LONG-TERM OBLIGATIONS

The District's long-term obligations consist of the following for the year ended December 31, 2021:

	Balance at January 1, 2021	Additions	Reductions	Balance at December 31, 2021	Due Within One Year
Limited Tax Revenue					
Bonds - Series 2018A	\$ 4,000,000	\$ -	\$ 4,000,000	\$ -	\$ -
Limited Tax Revenue					
Notes - Series 2018B	16,349,623	-	16,349,623	-	-
Limited Tax General Obligation					
Bonds - Series 2021A	-	20,030,000	-	20,030,000	-
Limited Tax General Obligation					
Bonds - Series 2021A Premium	-	236,323	-	236,323	-
Limited Tax General Obligation					
Bonds - Series 2021B	-	5,850,000	-	5,850,000	-
Junior Lien General Obligation					
Limited Tax Bond - Series 2021C	-	50,001	-	50,001	-
Accrued Interest - Series 2021B	-	51,797	-	51,797	-
Accrued Interest - Series 2021C	-	219	-	219	-
Total Long-Term Obligations	<u>\$ 20,349,623</u>	<u>\$ 26,218,340</u>	<u>\$ 20,349,623</u>	<u>\$ 26,218,340</u>	<u>\$ -</u>

Series 2021A and 2021B Senior and Subordinate General Obligation Limited Tax Bonds

On November 10, 2021, the District issued \$20,030,000 of senior and \$5,850,000 of subordinate general obligation limited tax bonds. The bonds were issued for the purpose of paying and discharging the Series 2018A Bonds and Series 2018B Note, funding the costs of public improvements for the benefit of the District and Morgan Hill Metropolitan District Nos. 1 and 2, paying the costs of issuing the bonds, and in the case of the Series 2021A Senior Bonds only, funding a portion of the initial interest to accrue on the Series 2021A Senior Bonds and funding a reserve fund for the Series 2021A Senior Bonds.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Series 2021A and 2021B Senior and Subordinate General Obligation Limited Tax Bonds (Continued)

The Series 2021A Senior Bonds bear a coupon interest rate of 3% to 4% per annum, which is payable semi-annually on June 1 and December 1, commencing on June 1, 2022. The Series 2021A Senior Bonds will mature on December 1, 2051, subject to both mandatory sinking fund redemption and option redemption prior to maturity. The Series 2021A Senior Bonds will constitute limited tax general obligations of the District payable solely from the Senior Pledged Revenue and certain funds and accounts established by the Senior Indenture. The Senior Pledged Revenue consists of revenue derived from the Capital Pledge Agreement, senior property tax revenues, senior specific ownership tax revenues, and other available moneys. The Series 2021A Seniors Bonds constitute an irrevocable, but nonexclusive, first lien on the Senior Pledged Revenue. The District incurred \$106,569 of interest expense on the 2021A Bonds during the year ended December 31, 2021.

The Series 2021B Subordinate Bonds bear a coupon interest rate of 6.375% per annum which is payable annually on December 15, commencing December 15, 2022, to the extent of the Subordinate Pledged Revenue available. The 2021B Subordinate Bonds mature on December 15, 2051, subject to mandatory redemption and option redemption prior to maturity. The Series 2021B Subordinate Bonds will also constitute limited tax general obligations of the District payable solely from the Subordinate Pledged Revenue and certain funds and accounts established by the Subordinate Indenture. The Subordinate Pledged Revenue consists of revenue derived from the capital pledge agreement, subordinate property tax revenues, subordinate specific ownership tax revenues, and other available moneys, all after the application of such amounts due on the Series 2021A Senior Bonds. The Series 2021B Subordinate Bonds are structured as “cash flow” bonds. There are no scheduled payments of principal of the Series 2021B Subordinate Bonds prior to their maturity date, but rather the Subordinate Bonds are subject to mandatory redemption on each December 15 prior to maturity from and to the extent of any available Subordinate Pledged Revenue. The Series 2021B Subordinate Bonds will be deemed paid in full and discharged on December 15, 2051, regardless of the amount of principal and interest paid on the Series 2021B Subordinate Bonds prior to such date. The District incurred \$51,797 of interest expense on the 2021B Bonds during the year ended December 31, 2021.

On November 1, 2021, the District entered into a Capital Pledge Agreement with Morgan Hill Metropolitan Districts No. 1 and No. 2 (the Pledged Districts) to support payment of the Bonds. The Districts are obligated to levy ad valorem property taxes in the amount of 50 mills and to pay such taxes and the specific ownership taxes attributable thereto. The obligation of the Pledge Districts to pay its allocated portion of the Annual Bond Costs constitutes a limited tax general obligation of the Pledge Districts payable solely from and to the extent of the Pledged Revenues.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

The Series 2021A Senior Limited Tax General Obligation Bonds will mature as follows:

<u>Year Ending December 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ -	\$ 796,131	\$ 796,131
2023	-	752,250	752,250
2024	-	752,250	752,250
2025	20,000	752,250	772,250
2026	220,000	751,650	971,650
2027-2031	1,715,000	3,630,300	5,345,300
2032-2036	2,475,000	3,306,650	5,781,650
2037-2041	3,405,000	2,811,400	6,216,400
2042-2046	4,635,000	2,090,800	6,725,800
2047-2051	7,560,000	1,045,200	8,605,200
Total	<u>\$ 20,030,000</u>	<u>\$ 16,688,881</u>	<u>\$ 36,718,881</u>

Series 2018A Bonds

The District issued the 2018A Limited Tax Revenue Bonds on July 10, 2018, in the amount of \$4,000,000. The Series 2018A Bonds did not involve a public offering, and the proceeds of such debt was used for issuance costs and to fund the cost of public infrastructure improvements.

The 2018A Bonds are secured by and payable from Pledged Revenue, which includes amounts collected by the District from the imposition of the Required Mill Levy, net of the cost of collection, specific ownership taxes allocable to the Required Mill Levy, amounts received from District No. 1 and District No. 2, and any other legally available moneys of the District. The Required Mill Levy is defined in the Trust Indenture as a mill levy imposed upon all taxable property of the District each year. Additionally, a guaranty agreement dated July 10, 2018, was made by CDG Morgan Hill, Inc. in favor of the Bond holders. The agreement states that in the case of the failure or inability of the District to pay any guaranteed obligation when due, the Guarantor (CDG Morgan Hill) irrevocably and unconditionally agrees to pay the amounts due. Bond interest is payable semi-annually on June 1 and December 1 of each year, with the principal due at maturity on December 1, 2023. The interest rate is 5.5% and interest is computed on the basis of a 360-day year of twelve 30-day months.

In November of 2021, the District issued Senior and Subordinate Limited Tax Bonds Series 2021A and 2021B. The Bond proceeds were used to pay off the remaining principal balance of \$4,000,000 and \$133,833 of interest. The District incurred \$115,500 of interest expense on the 2018A Bonds during the year ended December 31, 2021.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

PRIVATE PLACEMENT LONG TERM OBLIGATIONS

Series 2018B Note

The District issued the 2018B Limited Tax Obligation Note on August 14, 2018 for an amount not to exceed \$20,000,000 with the ability to draw on the Note as needed. The Series 2018B Bonds were sold exclusively to CDG Morgan Hill, Inc. The proceeds of such debt were used to refund certain amounts due on District No. 1's outstanding Capital Loans and operations of District No.1. The Bonds constitute an irrevocable lien upon the Subordinate Pledged Revenue, and due to the limited nature of the Subordinate Pledged Revenue, failure to pay principal or interest on the Bonds when due shall not constitute an event of default. Interest payments are due annually on December 1 of each year, with the principal due at maturity on December 1, 2048. The interest rate is 8.0% and interest is computed on the basis of a 360-day year of twelve 30-day months. On December 10, 2020, there was an additional draw on the 2018B Note for \$12,169,273, bringing the total outstanding balance of the 2018B Note to \$16,349,623.

In November of 2021, the District issued Senior and Subordinate Limited Tax Bonds Series 2021A and 2021B. The Bond proceeds were used to pay off the remaining principal balance of \$16,349,623 and \$1,208,262 of interest. The District incurred \$1,126,307 of interest expense on the 2018B Note during the year ended December 31, 2021.

Series 2021C Junior Lien General Obligation Limited Tax Bond

On December 9, 2021, the District issued a Series 2021C Junior Lien General Obligation Limited Tax Bond, which is one of a series aggregating a maximum of \$5,000,000 par value. The Bond bears an interest rate of 7.50%. The 2021C Bond matures on December 15, 2051. The Bond constitutes a junior lien general obligation (limited tax) of the District. All of the Bond, including the interest, is payable solely from and to the extent of the Junior Lien Pledged Revenue, and the Junior Lien Pledged Revenue is pledged to the payment of the Bond. The 2021C Bond constitutes an irrevocable, but nonexclusive, lien upon the Junior Lien Pledged Revenue.

The Series 2021C Bond is a draw-down Bond. The Bond is issued in an authorized denomination equal to the principal amount of this Bond as of any given date which shall be equal to the total amount of principal advanced, less any payment of principal on the Bond.

The District incurred \$219 of interest expense on the 2021C Bond during the year ended December 31, 2021.

Authorization

The District has been authorized to issue debt in the principal amount not to exceed \$269,000,000 as voted on in November 2008. The voted authorization has been limited by the service plan approved by the Town of Erie. At December 31, 2021, the District had remaining authorized but unissued indebtedness of \$243,069,999.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 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	\$ 639,322	\$ 5,760,623	\$ -	\$ 6,399,945

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. 3 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 Construction in Progress in 2020 and will be reclassified to land upon completion of the real property transfer to the District.

There were no conveyances to the Town of Erie during 2021.

NOTE 6 RELATED PARTY

All of the members of the Board of Directors are employees or are associated with Bellock Construction Company, the Construction Manager and accountants for the District, and Frederick Development Company, Inc., the Developer within the District. During 2021, District No. 1, District No. 2 and the District had the same board of directors.

Construction Management Agreement

A construction management agreement was entered into during 2009 between District No.1, District No. 2, the District, 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. The amount paid to Bellock Construction Company during 2021 for construction and construction management was \$524,224.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 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 annual rates of Bellock Construction Company employees. During 2021, the District incurred \$38,562 in accounting services fees.

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

In order to implement the Service Plan, the District entered into an intergovernmental agreement with District No. 1 and District No. 2. 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 is to construct the facilities benefiting the three Districts and transfer them to the Town of Erie or HOA. The District and District No. 1 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, the District 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 the District. 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 the District.

The District, District No. 1, and District No. 2 also entered into a Junior Lien Pledge Agreement related to the issuance of the Series 2021C Junior Lien Bond in the District. Under the agreement, District No. 1 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, District No. 1 and District No. 2 pledge their 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 taxes to be collected in 2020. During fiscal year 2020, the Gallagher Amendment was repealed.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

Warranty of Public Improvements

In 2020, CDG Morgan Hill, Inc. entered into a Development Agreement with the Town of Erie. As 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.

On November 5, 2020 CDG Morgan Hill Inc., and the District entered into the agreement for the Filing 2 Improvements. At the date of the agreement the estimated cost to complete and balance of the letter of credit was \$6,031,442. As of December 31, 2021, the estimated cost to complete the remaining improvements and the remaining balance of the letters of credit are \$6,063,176.

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; 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 insurance coverage in the past three years.

The District pays annual premiums to the Pool for liability and public official's liability. 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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS (CONTINUED)

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.

NOTE 10 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

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

	Morgan Hill Metropolitan District No. 1	Morgan Hill Metropolitan District No. 2	Morgan Hill Metropolitan District No. 3	Total Revenues
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 11 NET POSITION

The net position of the District consists of two components – restricted and unrestricted.

Restricted net position includes net position that is restricted for use either by notes imposed by external creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 11 NET POSITION (CONTINUED)

The District had a deficit net position at December 31, 2021 of \$5,510,243. This deficit amount is the result of the District being responsible for the repayment of debt issued for public improvements.

REQUIRED SUPPLEMENTARY INFORMATION

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL –
GENERAL FUND
YEAR ENDED DECEMBER 31, 2021**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 1,037,872	\$ 1,037,872	\$ 1,037,872	\$ -
Specific Ownership Taxes	62,272	48,675	51,957	3,282
Intergovernmental - Morgan Hill				
Metropolitan District No. 1	3,600,000	-	1,953	1,953
Metropolitan District No. 2	2,000,000	-	-	-
Net Investment Income	-	3,261	4,267	1,006
Total Revenues	<u>6,700,144</u>	<u>1,089,808</u>	<u>1,096,049</u>	<u>6,241</u>
EXPENDITURES				
Current:				
Audit	7,000	6,720	6,720	-
Accounting	15,000	30,349	38,562	(8,213)
Treasurer's Fee	15,568	15,568	15,568	-
Insurance	2,500	1,880	2,161	(281)
Letter of Credit	91,900	93,203	92,986	217
Miscellaneous	6,500	2,970	1,771	1,199
Capital Outlay	11,650,000	7,104,071	5,760,623	1,343,448
Debt Service				
Principal	7,200,000	20,349,623	20,349,623	-
Interest	1,284,260	1,342,095	1,342,095	-
Loan Origination Fees	-	768,237	770,968	(2,731)
Total Expenditures	<u>20,272,728</u>	<u>29,714,716</u>	<u>28,381,077</u>	<u>1,333,639</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(13,572,584)	(28,624,908)	(27,285,028)	1,339,880
OTHER FINANCING SOURCES				
Proceeds from Debt Issuance	-	26,250,301	26,166,324	(83,977)
Total Other Financing Sources	<u>-</u>	<u>26,250,301</u>	<u>26,166,324</u>	<u>(83,977)</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(13,572,584)	(2,374,607)	(1,118,704)	1,255,903
Fund Balances - Beginning of Year	<u>15,545,105</u>	<u>15,545,105</u>	<u>15,533,425</u>	<u>(11,680)</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,972,521</u>	<u>\$ 13,170,498</u>	<u>\$ 14,414,721</u>	<u>\$ 1,244,223</u>

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