

**MURPHY CREEK METROPOLITAN
DISTRICT NO. 3**

FINANCIAL STATEMENTS

December 31, 2023



Logan and Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Murphy Creek Metropolitan District No. 3
Arapahoe County, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Murphy Creek Metropolitan District No. 3 (the "District") as of and for the year ended December 31, 2023, 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 the Murphy Creek Metropolitan District No. 3 as of December 31, 2023, 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Murphy Creek Metropolitan District No. 3, and to meet our 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 the 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement 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 of 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 of 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 judgement, 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 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 schedule of the general fund on pages 21 - 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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. 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 has omitted the management's discussion and analysis that GASB requires to be

presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Murphy Creek Metropolitan District No. 3's basic financial statements. The accompanying budgetary comparison schedule for the debt service fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule of the debt service fund on page 23 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule of the debt service fund is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Logan and Associates, LLC

Aurora, Colorado
January 21, 2025

BASIC FINANCIAL STATEMENTS

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

STATEMENT OF NET POSITION
December 31, 2023

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Investments	\$ 645,557
Cash and Investments - Restricted	28,542
Accounts Receivable	
Recreation Fees, Net	55,678
County Treasurer	8,762
Prepaid Expenses	38,515
Property Taxes Receivable	1,699,934
Capital Assets, Not Being Depreciated	116,430
Capital Assets, Net of Accumulated Depreciation	<u>2,544,487</u>
 TOTAL ASSETS	 <u>5,137,905</u>
LIABILITIES	
Accounts Payable	79,006
Accrued Interest Payable	139,697
Unearned Assessment Fees	83,370
Bonds & Unpaid Interest Payable	
Due Within One Year	3,526,396
Due in More Than One Year	<u>27,600,000</u>
 TOTAL LIABILITIES	 <u>31,428,469</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Property Taxes	<u>1,699,934</u>
NET POSITION	
Restricted for Emergencies	53,600
Unrestricted	<u>(28,044,098)</u>
 TOTAL NET POSITION	 <u><u>\$ (27,990,498)</u></u>

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

STATEMENT OF ACTIVITIES
Year Ended December 31, 2023

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE)
		CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUE AND CHANGE IN NET POSITION
PRIMARY GOVERNMENT				GOVERNMENTAL ACTIVITIES
Governmental Activities				
General Government	\$ 240,724	\$ -	\$ -	\$ (240,724)
Recreation	1,954,688	71,841	136,769	(1,746,078)
Interest on Long-Term Debt	2,002,482	-	-	(2,002,482)
Total Governmental Activities	<u>4,197,894</u>	<u>71,841</u>	<u>136,769</u>	<u>(3,989,284)</u>
GENERAL REVENUES				
Property Taxes				2,065,654
Specific Ownership Taxes				135,276
Assessment Fees				1,016,332
Assessment Fees - Bad Debts				(10,000)
Developer Assessment Fees				64,474
Directory Fees				8,150
Investment Income				21,374
Insurance Proceeds				507,937
Miscellaneous Income				1,395
TOTAL GENERAL REVENUES				<u>3,810,592</u>
CHANGE IN NET POSITION				(178,692)
NET POSITION, Beginning				<u>(27,811,806)</u>
NET POSITION, Ending				<u>\$ (27,990,498)</u>

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2023

	GENERAL	DEBT SERVICE	TOTALS
ASSETS			
Cash and Investments	\$ 645,557	\$ -	\$ 645,557
Cash and Investments - Restricted	-	28,542	28,542
Due from Other Funds	20,005	44,529	64,534
Accounts Receivable			
Recreation Fees, Net	55,678	-	55,678
County Treasurer	-	8,762	8,762
Prepaid Expenses	38,515	-	38,515
Property Taxes Receivable	-	1,699,934	1,699,934
TOTAL ASSETS	\$ 759,755	\$ 1,781,767	\$ 2,541,522
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 79,006	\$ -	\$ 79,006
Due to Other Funds	44,529	20,005	64,534
Unearned Assessment Fees	83,370	-	83,370
TOTAL LIABILITIES	206,905	20,005	226,910
DEFERRED INFLOWS OF RESOURCES			
Deferred Property Taxes	-	1,699,934	1,699,934
FUND BALANCES			
Nonspendable	38,515	-	38,515
Restricted for Emergencies	53,600	-	53,600
Restricted for Debt Service	-	61,828	61,828
Unassigned	460,735	-	460,735
TOTAL FUND BALANCES	552,850	61,828	614,678
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 759,755	\$ 1,781,767	\$ 2,541,522

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balances of Governmental Funds	\$ 614,678
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	2,660,917
Long-term liabilities, including bonds payable (\$27,600,000), unpaid interest payable (\$3,526,396) and accrued interest payable (\$139,697) are not due and payable in the current year and, therefore, are not reported in the funds.	(31,266,093)
Total Net Position of Governmental Activities	\$ (27,990,498)

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2023

	GENERAL	DEBT SERVICE	TOTALS
REVENUES			
Property Taxes	\$ -	\$ 2,065,654	\$ 2,065,654
Specific Ownership Taxes	-	135,276	135,276
Assessment Fees	1,016,332	-	1,016,332
Assessment Fees - Bad Debts	(10,000)	-	(10,000)
Developer Assessment Fees	53,884	10,590	64,474
Directory Fees	8,150	-	8,150
Clubhouse & Recreation Fees	2,470	-	2,470
Late Fees & Other	69,371	-	69,371
Contributions - HOA	136,769	-	136,769
Insurance Proceeds	507,937	-	507,937
Miscellaneous Income	881	514	1,395
Investment Income	310	21,064	21,374
	<u>1,786,104</u>	<u>2,233,098</u>	<u>4,019,202</u>
TOTAL REVENUES			
EXPENDITURES			
General Government	207,016	33,708	240,724
Recreation	1,694,030	-	1,694,030
Debt Service			
Interest and Fiscal Charges	-	2,179,000	2,179,000
	<u>1,901,046</u>	<u>2,212,708</u>	<u>4,113,754</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCES	(114,942)	20,390	(94,552)
FUND BALANCES, Beginning	<u>667,792</u>	<u>41,438</u>	<u>709,230</u>
FUND BALANCES, Ending	<u>\$ 552,850</u>	<u>\$ 61,828</u>	<u>\$ 614,678</u>

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2023

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balances of Governmental Funds	\$ (94,552)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount of current year depreciation expense.	(260,658)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in unpaid interest payable.	<u>176,518</u>
Change in Net Position of Governmental Activities	<u>\$ (178,692)</u>

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Murphy Creek Metropolitan District No. 3 (the "District") was formed on November 16, 1998, concurrently with Murphy Creek Metropolitan District Nos. 1, 2 and 4 ("District Nos. 1, 2 and 4"). The District and District Nos. 1, 2 and 4 are located entirely in the City of Aurora ("Aurora") in Arapahoe County, Colorado. On August 8, 2016, Aurora approved and Amended and Restated Consolidated Service Plan for the District and District Nos. 1, 2 and 4 and a Service Plan for Murphy Creek Metropolitan District No. 5 (the "Service Plan"). The District and District Nos. 1, 2, 4 and 5 are collectively referred to herein as the "Districts". The Districts have the power to provide water, sanitation, streets, traffic and safety control devices, television relay and translator services, transportation and parks and recreational facilities, and improvements within its boundaries. The District is governed by a five-member Board of Directors elected by the residents.

The Service Plan contemplates District No. 1 serving as the "operating district" and District Nos. 2, 3, 4 and 5 serving as the "taxing districts." The operating district is responsible for providing day to day operations and administrative management of all five Districts. This arrangement was memorialized in the Service Contract among the District and District Nos. 1, 2, and 4 (See Note 5). On April 26, 2017, the District along with District Nos. 1, 2 and 4 entered into a Termination Agreement whereby the Service Contract was terminated. The District now operates separately from District Nos. 1, 2 4 and 5.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it. Based on the application of this criteria, the District does not include additional organizations in its reporting entity.

The District has no employees and all operations and administrative activities are contracted

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported in a single column.

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

The statement of activities demonstrates the degree to which the direct expenses of the 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.

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and used. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Property taxes, specific ownership taxes, intergovernmental revenues, and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

In the fund financial statements, the District reports the following major governmental funds:

General Fund is the District's primary operating fund that accounts for all financial resources of the District, except those required to be accounted for in another fund.

Debt Service Fund accounts for resources accumulated for, and payments made on, long-term debt obligations of the District.

Assets, Liabilities and Net Position/Fund Balances

Investments - Investments are reported at fair value.

Accounts Receivable - Accounts receivable are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Accounts receivable are reported in the statement of net position, net of allowance for uncollectible accounts.

Due to/from Other Funds - During the course of operations, certain transactions occur between individual funds. The resulting receivables and payables are classified in the fund financial statements as due to/from other funds.

Capital Assets - Capital assets, which include primarily land, infrastructure, and related improvements, are reported 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position/Fund Balances (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, using the straight-line method. 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. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20 Years
Pool	15 years
Parks and Recreational Improvements	7 – 20 years

Unearned Assessment Fees – Unearned Assessment Fees includes receipts from residents and developers for recreation and developer assessment fees related to the following year.

Long-Term Debt - In the government-wide financial statements, long-term debt is reported as a liability. Bond premium/discount and cost of refunding are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources – In addition to assets, the balance sheet – governmental funds and statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement classification represents an acquisition of fund balance or net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until then. The District has an item related to property taxes levied in the current year to be collected in the following year at December 31, 2023.

Net Position – The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets – This classification reflects the portion of net position that is associated with non-liquid, capital assets less outstanding capital asset related debt.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position/Fund Balances (Continued)

- Restricted Net Position – This classification includes amounts for which constraints have been placed on net position either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This classification includes the remaining net position that is not restricted or part of the net investment in capital assets.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form (such as prepaid items) or (b) are legally or contractually required to be maintained intact.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District’s highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.
- Assigned – This classification includes amounts that are constrained by the District’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or changed than those imposed on committed amounts.
- Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District has not established a formal policy for its use of restricted and unrestricted fund balance. However, if both the restricted and unrestricted fund balances are available the District uses restricted fund balance first.

Property Taxes

Property taxes attach as an enforceable lien on property on January 1, are levied the following December, and are collected in the subsequent calendar year. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's Office collects property taxes and remits to the District on a monthly basis. Since property tax revenues are collected in arrears during the succeeding year, a receivable and corresponding deferred inflow of resources are reported at December 31.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The District has evaluated events subsequent to the year ended December 31, 2023 through January 21, 2025, the date of these financial statements were issued, and has incorporated any required recognition into these financial statements.

NOTE 2: CASH AND INVESTMENTS

At December 31, 2023, the District had the following cash and investments.

Deposits	\$ 645,557
Investments	<u>28,542</u>
Total	<u>\$ 674,099</u>

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$ 645,557
Cash and Investments – Restricted	<u>28,542</u>
Total	<u>\$ 674,099</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 2: CASH AND INVESTMENTS (Continued)

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all local government entities deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of Federal Deposit Insurance Corporation (FDIC) levels must be collateralized by eligible collateral as determined by the PDPA. The FDIC insures depositors up to \$250,000 for each financial institution. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2023, the District had bank deposits totaling \$662,028, of which \$487,445 were insured by FDIC and \$174,583 were collateralized with securities held by the financial institutions' agents but not in their name.

Investments

The District has not adopted a formal investment policy; however, the District follows State statutes regarding investments. The District generally limits its concentration of investments to Local Government Investment Pools, obligation of the United States and certain U.S. government agency securities, 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 revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors, such actions are generally associated with a debt service reserve or sinking fund requirements.

State statutes specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest which include the following.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 2: CASH AND INVESTMENTS (Continued)

At December 31, 2023, the District had the following investments:

	<u>Maturity</u>	<u>2023</u>
Colorado Liquid Government Asset Trust (COLOTRUST)	Weighted Average under 60 days	\$ 27,557
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted Average under 60 days	<u>985</u>
Total		<u>\$ 28,542</u>

COLOTRUST - The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus assets. 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 offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS +. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rates commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the Town records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

CSAFE - The District invested in the Colorado Surplus Asset Fund (CSAFE), an investment vehicle established by state statutes for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing CSAFE. CSAFE is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE'S investment portfolio and provides services as a depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at net asset value and the District records its investment in CSAFE using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 2: CASH AND INVESTMENTS (Continued)

Interest Rate Risk - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. The District does not have a policy for managing credit risk or interest rate risk.

Restricted Cash and Investments

Restricted cash and investments consist of amounts restricted for future debt service requirements.

NOTE 3: INTERFUND RECEIVABLES/PAYABLES

At December 31, 2023, the Debt Service Fund owed the General Fund \$20,005 for specific ownership tax revenues received in 2018, for which the cash was not transferred to the General Fund. The General Fund owed the Debt Service Fund \$44,529 for developer fees collected which belonged to the Debt Service Fund.

NOTE 4: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

The Governmental Activities had deficit net position of \$27,990,498 December 31, 2023. The Governmental Activities deficit is primarily related to the District issuing debt and developing capital assets infrastructure that was conveyed to the City of Aurora, Colorado. Management expects this deficit balance to be eliminated as the debt principal and unpaid interest are paid.

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MURPHY CREEK METROPOLITAN DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023, is summarized below:

	<u>Balances</u> <u>12/31/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/2023</u>
Governmental Activities:				
Capital Assets, not being depreciated				
Land	\$ 116,430	\$ -	\$ -	\$ 116,430
Total Capital Assets, not being depreciated	<u>116,430</u>	<u>-</u>	<u>-</u>	<u>116,430</u>
Capital Assets, being depreciated				
Parks and Recreational Improvements	2,146,826	-	-	2,146,826
Buildings	1,676,557	-	-	1,676,557
Pool	491,457	-	-	491,457
Total Capital Assets, being depreciated	<u>4,314,840</u>	<u>-</u>	<u>-</u>	<u>4,314,840</u>
Less accumulated depreciation				
Parks and Recreational Improvements	(851,167)	(143,592)	-	(994,759)
Buildings	(461,944)	(84,302)	-	(546,246)
Pool	(196,584)	(32,764)	-	(229,348)
Total accumulated depreciation	<u>(1,509,695)</u>	<u>(260,658)</u>	<u>-</u>	<u>(1,770,353)</u>
Total Capital Assets, being depreciated, net	<u>2,805,145</u>	<u>(260,658)</u>	<u>-</u>	<u>2,544,487</u>
Governmental Activities Capital Assets, net	<u>\$ 2,921,575</u>	<u>\$ (260,658)</u>	<u>\$ -</u>	<u>\$ 2,660,917</u>

Depreciation expense was charged to the recreation program of the District.

NOTE 6: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended December 31, 2023.

	<u>Balances</u> <u>12/31/2022</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balances</u> <u>12/31/2023</u>	<u>Due Within</u> <u>One Year</u>
2006 Limited Tax GO Refunding and Improvement Bonds	\$ 27,600,000	\$ -	\$ -	\$ 27,600,000	\$ -
Unpaid Interest - Bonds	3,702,914	2,000,982	2,177,500	3,526,396	3,526,396
	<u>\$ 31,302,914</u>	<u>\$ 2,000,982</u>	<u>\$ 2,177,500</u>	<u>\$ 31,126,396</u>	<u>\$ 3,526,396</u>

Limited Tax General Obligation Refunding Bonds

\$27,600,000 Limited Tax General Obligation Refunding and Improvement Bonds, Series 2006, were issued by the District for the purpose of paying a portion of the costs of improvements and facilities within the District and refunding the Series 2004 Limited Tax General Obligation Bonds. The Bonds are secured by a limited mill levy not to exceed 48.944 mills, as adjusted for changes in the method of calculation assessed valuation as determined by the State of Colorado, as well as development

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 6: LONG-TERM DEBT (Continued)

fee revenues and a portion of specific ownership taxes collected by the District. The Bonds are term bonds in the amounts of \$11,310,000 and \$16,290,000, with maturity dates of December 1, 2026 and December 1, 2035, respectively. Interest payments are due semi-annually on June 1 and December 1, accruing at rates of 6% for the Bonds maturing in 2026 and 6.125% for Bonds maturing in 2035.

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

The District has not established a revenue base sufficient to pay the District's debt service requirements. During 2010 through 2018, the District has been unable to pay the full amount of interest due or make the required principal payments. The District made interest payments of \$2,177,500 for the year ended December 31, 2023. Total unpaid principal due under the Indenture of Trust through December 31, 2023 is \$7,880,000. The unpaid accrued interest of \$3,526,396 is reported in the government-wide financial statements.

Failure to make schedule principal and interest payments as a result of insufficient ad valorem tax revenues from the limited mill levy does not constitute an event of default under the Indenture of Trust. The District's budget for 2024 indicates the current year's interest will be paid in full.

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

Authorized But Unissued Debt

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 6: LONG-TERM DEBT (Continued)

Debt Refinancing

On January 9, 2024, the District refinanced the outstanding principal and unpaid interest of the Limited Tax General Obligation Refunding and Improvement Bonds, Series 2006 with the issuance of \$31,670,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Refunding Loan, Series 2024 (Refunding Loan). The District entered into a loan agreement with Western Alliance Business Trust as the lender. Annual principal payments are due beginning December 1, 2024 through December 1, 2053, with interest payments due semi-annually beginning June 1, 2024 through December 1, 2053, at rates ranging from 4.500% to 5.250%. The Series 2006 bonds were placed in escrow and were paid-in-full on January 22, 2024.

NOTE 7: INTERGOVERNMENTAL AGREEMENTS ("IGA"s)

IGA with Aurora

On August 8, 2016, the Districts and Aurora entered into an Amended and Restated 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 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 the Aurora Regional Improvement (ARI) Authority or to Aurora under certain circumstances. The District's ARI requirement begins after approval by voters at an election to collect District operations revenues through taxes which has not yet occurred.

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.

Facilities Construction and Service Agreement ("Service Contract")

On January 1, 2001, in order to implement the original intent of the original Service Plan for coordinated services, the District and District Nos. 1 and 2 entered into a Service Contract. The Service Contract was later amended to add District No. 4 as a party thereto. District No. 5 is not a party to the Service Contract.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 7: INTERGOVERNMENTAL AGREEMENTS ("IGA"s) (Continued)

Pursuant to the Service Contract, District No. 1, as the operating district, is to own, operate, maintain, and construct the facilities benefiting all Districts. To the extent that District Nos. 2, 3 and 4 are to benefit, they are to pay the total capital costs and service costs of operation and maintenance of such facilities.

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

District Reimbursement Agreement

On April 26, 2017, concurrent with the execution of the Termination Agreement, the District entered into a District Reimbursement Agreement with District No. 2 (the "DRA"). The DRA acknowledges that there are improvements located within the District which also benefit District No. 2. As such, costs incurred by the District to operate, maintain, repair and replace the shared improvements are to be billed to District No. 2 on a proportionate and annual basis and District No. 2 is to reimburse the District for those costs.

NOTE 8: PUBLIC ENTITY RISK POOL

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. For these risks of loss, the District participates in the Colorado Special Districts Property and Liability Pool (the "Pool"), a separate and independent governmental and legal entity formed by intergovernmental agreement.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 8: PUBLIC ENTITY RISK POOL (Continued)

The purposes of the Pool are to provide members defined liability, property, and workers' compensation coverages and to assist members in preventing and reducing losses and injuries to property and to persons or property which might result in claims being made against members of the Pool, their employees and officers.

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability of loss, to the limit of the financial resources of the Pool.

It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverage at reasonable costs. All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members. The Pool is a separate legal entity and the District does not approve budgets nor does it have the ability to significantly affect the operations of the Pool.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation.

On November 3, 1998, a majority of the District's voters authorized the District to be permitted to impose a mill levy, unlimited as to rate or amount, to increase such levy from year to year and collect, expend or retain annual District revenues generated from such mill levy or any other legally available revenues in 1999 and each year thereafter through the year 2018 inclusive for payment of operations and maintenance and other general or administrative expense of the District without regard to any expenditure, revenue raising or other limitation contained in paragraph 29-1-301, C.R.S. or any other law.

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

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 9: COMMITMENTS AND CONTINGENCIES (Continued)

The District has established an emergency reserve, representing 3% of qualifying expenditures, as required by the Amendment. At December 31, 2023, the emergency reserve of \$53,600 was reported as a restriction of fund balance in the General Fund and restricted net position in the statement of net position.

Litigation

Murphy Creek LLC, et al. v. Murphy Creek Metropolitan District No. 3, et al. The developer, Murphy Creek LLC, ("Plaintiffs") filed a lawsuit in Arapahoe County, Colorado District Court, Case No. 2023CV031209, against the District, its Board members, its former legal counsel, and others arising from their complaints about certain fee resolutions adopted by the District and alleged conduct attendant to prior litigation. Specifically, Plaintiffs assert multiple declaratory judgement, tort and 42 U.S.C. § 1983 claims against Murphy Creek Metropolitan District No. 3. Discovery is ongoing and a five day jury trial is scheduled to begin on June 9, 2025. It is the District's intention to vigorously defend this suit through the conclusion of trial if necessary. A precise evaluation of the likelihood of an unfavorable outcome in this case cannot be determined with any level of accuracy at this point. Similarly, the amounts or range of potential loss cannot be determined with any level of accuracy at this point.

City of Aurora v. Mathew West, et al. In 2023, the City of Aurora filed a lawsuit against the District and neighboring landowners challenging the District's use of its owned property contending that such use is an unreasonable interference with the City of Aurora's easement. This lawsuit was dismissed by the Courts on January 23, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

Year Ended December 31, 2023
(With Comparative Totals for December 31, 2022)

	2023			2022
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	ACTUAL
REVENUES				
Assessment Fees	\$ 1,006,560	\$ 1,016,332	\$ 9,772	\$ 983,100
Assessment Fees - Bad Debts	-	(10,000)	(10,000)	(40,000)
Developer Assessment Fees	-	53,884	53,884	89,696
Directory Fees	6,500	8,150	1,650	6,748
Clubhouse & Recreation Fees	4,800	2,470	(2,330)	5,360
Late Fees & Other	10,040	69,371	59,331	33,484
Contributions - HOA	-	136,769	136,769	-
Insurance Proceeds	-	507,937	507,937	-
Miscellaneous Income	-	881	881	-
Interest Income	231	310	79	303
TOTAL REVENUES	1,028,131	1,786,104	757,973	1,078,691
EXPENDITURES				
General Government				
District Management	99,075	87,260	11,815	71,473
Professional Fees	24,100	21,463	2,637	25,131
Legal	108,040	69,684	38,356	72,879
Insurance	34,207	28,609	5,598	24,612
Total General Government	265,422	207,016	58,406	194,095
Recreation				
Grounds Maintenance	292,409	413,382	(120,973)	214,157
Clubhouse and Facilities	297,000	975,764	(678,764)	221,415
Irrigation, Gas and Electric	173,300	168,718	4,582	172,495
Nonrecurring Projects	-	136,166	(136,166)	-
Total Public Works	762,709	1,694,030	(931,321)	608,067
Capital Expense	302,000	-	302,000	10,633
Contingency/Reserves	-	-	-	-
TOTAL EXPENDITURES	1,330,131	1,901,046	(570,915)	812,795
NET CHANGE IN FUND BALANCE	(302,000)	(114,942)	187,058	265,896
FUND BALANCE, Beginning	-	667,792	667,792	401,896
FUND BALANCE (DEFICIT), Ending	\$ (302,000)	\$ 552,850	\$ 854,850	\$ 667,792

See the accompanying Independent Auditor's Report.

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2023

NOTE 1: BUDGETARY INFORMATION

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- In October, District management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 15th, the budget is legally enacted through passage of a resolution.
- District management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- Budgets are legally adopted for all funds of the District on a basis consistent with generally accepted accounting principles (GAAP).
- All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

Legal Compliance

For the year ended December 31, 2023 the General Fund budgeted expenditures exceeded budgeted revenues by \$570,915. This may be a violation of State statutes.

For the year ended December 31, 2023 the Debt Service Fund actual expenditures exceeded appropriated expenditures by \$502,377. This may be a violation of State statutes.

SUPPLEMENTARY INFORMATION

MURPHY CREEK METROPOLITAN DISTRICT NO. 3

BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 Year Ended December 31, 2023
 (With Comparative Totals for December 31, 2022)

	2023		VARIANCE Positive (Negative)	2022
	ORIGINAL AND FINAL BUDGET	ACTUAL		ACTUAL
REVENUES				
Property Taxes	\$ 2,064,502	\$ 2,065,654	\$ 1,152	\$ 2,078,442
Excluded Property Fees	144,515	135,276	(9,239)	131,157
Developer Assessment Fees	-	10,590	10,590	535,605
Investment Income	5,000	21,064	16,064	18,851
Miscellaneous Income	-	514	514	2,990
TOTAL REVENUES	<u>2,214,017</u>	<u>2,233,098</u>	<u>19,081</u>	<u>2,767,045</u>
EXPENDITURES				
General Government				
Treasurer's Fees	30,968	33,708	(2,740)	31,181
Debt Service				
Interest and Fiscal Charges	<u>1,679,363</u>	<u>2,179,000</u>	<u>(499,637)</u>	<u>2,702,397</u>
TOTAL EXPENDITURES	<u>1,710,331</u>	<u>2,212,708</u>	<u>(502,377)</u>	<u>2,733,578</u>
NET CHANGE IN FUND BALANCE	503,686	20,390	(483,296)	33,467
FUND BALANCE, Beginning	<u>927</u>	<u>41,438</u>	<u>40,511</u>	<u>7,971</u>
FUND BALANCE, Ending	<u>\$ 504,613</u>	<u>\$ 61,828</u>	<u>\$ (442,785)</u>	<u>\$ 41,438</u>

See the accompanying Independent Auditor's Report.