

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
WELD COUNTY, COLORADO**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2023

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
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YEAR ENDED DECEMBER 31, 2023**

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Board of Directors
Morgan Hill Metropolitan District No. 3
Weld County, Colorado

Independent Auditor's Report

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Morgan Hill 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 Morgan Hill Metropolitan District No. 3 as of December 31, 2023, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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 District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 (GAAP), 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

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

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

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

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

Other Matters

Required Supplemental Information

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

Other Information

Management is responsible for the other information included in our report. The other information, as listed in the table of contents, does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and, accordingly, we do not express an opinion or provide any assurance on them.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Wipfli LLP

Wipfli LLP
Denver, Colorado

January 30, 2025

BASIC FINANCIAL STATEMENTS

MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF NET POSITION
DECEMBER 31, 2023

	Governmental Activities
ASSETS	
Cash and Investments - Restricted	\$ 3,873,997
Receivable from County Treasurer	2,336
Property Tax Receivable	1,005,222
Due from Morgan Hill Metro District No. 1	2,222
Due from Morgan Hill Metro District No. 2	4,440
Capital Assets Not Being Depreciated	3,742,698
Total Assets	8,630,915
LIABILITIES	
Accounts Payable	173,581
Accrued Interest	62,688
Noncurrent Liabilities:	
Due in More Than One Year	30,407,754
Total Liabilities	30,644,023
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	1,005,222
Total Deferred Inflows of Resources	1,005,222
NET POSITION	
Restricted for:	
Emergency Reserve	47,700
Debt Service	722,227
Capital Projects	1,436,517
Unrestricted	(25,224,774)
Total Net Position	\$ (23,018,330)

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023**

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 180,089	\$ -	\$ 633,891	\$ -	\$ 453,802
Interest and Related Costs on Long-Term Debt	1,525,716	-	-	-	(1,525,716)
Total Governmental Activities	\$ 1,705,805	\$ -	\$ 633,891	\$ -	(1,071,914)
GENERAL REVENUES					
Property Taxes					764,763
Specific Ownership Taxes					32,580
Interest Income					172,832
Reimbursed Expenditures					3
Total General Revenues and Transfers					970,178
CHANGES IN NET POSITION					(101,736)
Net Position - Beginning of Year					(22,916,594)
NET POSITION - END OF YEAR					\$ (23,018,330)

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
BALANCE SHEET – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2023**

	General	Total Governmental Fund
ASSETS		
Cash and Investments - Restricted	\$ 3,873,997	\$ 3,873,997
Receivable from County Treasurer	2,336	2,336
Due from Morgan Hill Metro District No. 1	2,222	2,222
Due from Morgan Hill Metro District No. 2	4,440	4,440
Property Tax Receivable	1,005,222	1,005,222
Total Assets	\$ 4,888,217	\$ 4,888,217
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 173,581	\$ 173,581
Total Liabilities	173,581	173,581
DEFERRED INFLOWS OF RESOURCES		
Deferred Property Tax	1,005,222	1,005,222
Total Deferred Inflows of Resources	1,005,222	1,005,222
FUND BALANCES		
Restricted for:		
Emergency Reserves	48,100	48,100
Debt Service	722,227	722,227
Capital Projects	1,428,042	1,428,042
Unassigned	1,511,045	1,511,045
Total Fund Balances	3,709,414	3,709,414
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,888,217	

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 funds. 3,742,698

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Accrued Interest	(62,688)
Accrued Contingent Liability	(779,143)
Bonds Payable	(29,414,214)
Bond Premium	(214,397)

Net Position of Governmental Activities \$ (23,018,330)

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2023**

	General
REVENUES	
Property Taxes	\$ 764,763
Specific Ownership Taxes	32,580
Interest Income	172,832
Reimbursed Expenditures	3
Transfers from Morgan Hill Metro District No. 1	224,201
Transfers from Morgan Hill Metro District No. 2	409,690
Total Revenues	1,604,069
EXPENDITURES	
General, Administrative, and Operations:	
Banking Fees	3,007
County Treasurer's Fee	11,472
District Management	36,365
Landscaping	33,716
Letter of Credit Expense	95,529
Debt Service:	
Bond Interest Series 2021A	752,250
Bond Interest Series 2021B	46,718
Bond Interest Series 2021C	320,540
Bond Principal Series 2021C	1,465,786
Paying Agent Fees	7,000
Capital Projects:	
Capital Outlay	1,521,511
Total Expenditures	4,293,894
EXCESS OF REVENUES UNDER EXPENDITURES	(2,689,825)
OTHER FINANCING SOURCES (USES)	
Bond Issuance Proceeds	1,888,621
Total Other Financing Sources	1,888,621
NET CHANGE IN FUND BALANCES	(801,204)
Fund Balances - Beginning of Year	4,510,618
FUND BALANCES - END OF YEAR	\$ 3,709,414

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, 2023**

Net Change in Fund Balances - Total Governmental Funds \$ (801,204)

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

Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Therefore, this is the amount of capital outlay, depreciation and dedication of capital assets to other governments, in the current period.

Capital Outlay 1,521,511

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net position.

Bond Issuance (1,888,621)
Bond Principal 1,465,786

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.

Accrued Interest Payable - Change in Liability (409,860)
Amortization of Bond Premium 10,652

Changes in Net Position of Governmental Activities \$ (101,736)

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2023**

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Property Taxes	\$ 766,113	\$ 766,113	\$ 764,763	\$ (1,350)
Specific Ownership Taxes	38,306	38,306	32,580	(5,726)
Interest Income	-	173,000	172,832	(168)
Reimbursed Expenditures	-	-	3	3
Transfers from Morgan Hill Metro District No. 1	227,148	227,148	224,201	(2,947)
Transfers from Morgan Hill Metro District No. 2	413,461	413,461	409,690	(3,771)
Total Revenues	<u>1,445,028</u>	<u>1,618,028</u>	<u>1,604,069</u>	<u>(13,959)</u>
EXPENDITURES				
Banking Fees	-	3,007	3,007	-
County Treasurer's Fee	11,492	11,472	11,472	-
District Management	-	36,365	36,365	-
Letter of Credit Expense	-	95,529	95,529	-
Landscaping	-	33,716	33,716	-
Paying Agent Fees	8,000	7,000	7,000	-
Bond Interest Series 2021A	752,250	752,250	752,250	-
Bond Interest Series 2021B	-	46,718	46,718	-
Bond Interest Series 2021C	1,201,004	1,158,185	320,540	837,645
Bond Principal Series 2021C	-	628,142	1,465,786	(837,644)
Capital Outlay	-	1,601,383	1,521,511	79,872
Contingency	-	3,233	-	3,233
Total Expenditures	<u>1,972,746</u>	<u>4,377,000</u>	<u>4,293,894</u>	<u>83,106</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(527,718)	(2,758,972)	(2,689,825)	69,147
OTHER FINANCING SOURCES (USES)				
Bond Issuance Proceeds	-	1,888,621	1,888,621	-
Total Other Financing Sources	<u>-</u>	<u>1,888,621</u>	<u>1,888,621</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(527,718)	(870,351)	(801,204)	69,147
Fund Balance - Beginning of Year	<u>1,904,755</u>	<u>4,510,618</u>	<u>4,510,618</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,377,037</u></u>	<u><u>\$ 3,640,267</u></u>	<u><u>\$ 3,709,414</u></u>	<u><u>\$ 69,147</u></u>

See accompanying Notes to Basic Financial Statements.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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) and Morgan Hill Metropolitan District No. 2 (District No. 2) 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.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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.

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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The District amended its budget for the year ending December 31, 2023.

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in total cash.

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 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August, and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

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

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress and are not included in the calculation of investment in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of 10 to 20 years.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Fund Equity

Net Position

For government-wide presentation purposes 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.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

Restricted Fund Balance – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity (Continued)

Fund Balance (Continued)

Committed Fund Balance – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the board of directors. The constraint may be removed or changed only through formal action of the board of directors.

Assigned Fund Balance – The portion of fund balance that is constrained by the government’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 modified than those imposed on amounts that are classified as committed.

Unassigned Fund Balance – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District’s practice to use the most restrictive classification first.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2023 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments - Restricted	\$ 3,873,997
Total Cash and Investments	<u>\$ 3,873,997</u>

Cash and investments as of December 31, 2023 consist of the following:

Deposits with Financial Institutions	\$ 15,250
Investments	<u>3,858,747</u>
Total Cash and Investments	<u>\$ 3,873,997</u>

Deposits with Financial Institutions

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 market value of the collateral must be at least 102% of the aggregate uninsured deposits.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions (Continued)

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, 2023, the District had a bank and carrying balance of \$15,250 in cash deposits.

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 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 or investment custodial risk disclosure requirements 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.

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 securities of the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Certain certificates of participation
- Certain securities lending agreements
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- * Local government investment pools

As of December 31, 2023, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Less than One Year Less than One Year	\$ 3,858,747 \$ 3,858,747

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust currently offers two portfolios – CSAFE CASH FUND and CSAFE CORE.

CSAFE CASH FUND operations 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, any security allowed under CRS 24-75-601.

CSAFE CORE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a \$2.00 transactional share price. CSAFE CORE may invest in securities authorized by CRS 24-75-601, including U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

A designated custodial bank serves as custodian for CSAFE’s portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE’s investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian’s internal records segregate investments owned by CSAFE. CSAFE CASH FUND is rated AAmmf and CSAFE CORE is rated AAf/S1 by Fitch Ratings. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

NOTE 4 CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2023 follows:

	Balance at December 31, 2022	Increases	Decreases	Balance at December 31, 2023
Construction in Progress	\$ 2,221,187	\$ 1,521,511	\$ -	\$ 3,742,698
Total Capital Assets, Not Being Depreciated	\$ 2,221,187	\$ 1,521,511	\$ -	\$ 3,742,698

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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 LONG-TERM OBLIGATIONS

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2023:

	Balance at December 31, 2022	Additions	Reductions	Balance at December 31, 2023	Due Within One Year
Bonds Payable:					
Limited Tax General Obligation Bonds:					
Series 2021A	\$ 20,030,000	\$ -	\$ -	\$ 20,030,000	\$ -
Series 2021B	5,850,000	-	-	5,850,000	-
Junior Lien General Obligation Limited Tax Bonds:					
Series 2021C	3,111,379	1,888,621	1,465,786	3,534,214	-
Accrued Interest:					
Series 2021B	349,369	464,711	46,718	767,362	-
Series 2021C	19,914	312,407	320,540	11,781	-
Subtotal Bonds Payable	<u>29,360,662</u>	<u>2,665,739</u>	<u>1,833,044</u>	<u>30,193,357</u>	<u>-</u>
Bond Premium/Discount:					
Bond Premium - Series 2021A	<u>225,049</u>	-	<u>10,652</u>	<u>214,397</u>	-
Subtotal Bond Premium/Discount	<u>225,049</u>	<u>-</u>	<u>10,652</u>	<u>214,397</u>	<u>-</u>
Total Long-Term Obligations	<u><u>\$ 29,585,711</u></u>	<u><u>\$ 2,665,739</u></u>	<u><u>\$ 1,843,696</u></u>	<u><u>\$ 30,407,754</u></u>	<u><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.

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 optional 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 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 optional 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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

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

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.

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.

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>
2024	\$ -	\$ 752,250	\$ 752,250
2025	20,000	752,250	772,250
2026	220,000	751,650	971,650
2027	285,000	745,050	1,030,050
2028	325,000	736,500	1,061,500
2029-2033	1,990,000	3,520,725	5,510,725
2034-2038	2,830,000	3,127,975	5,957,975
2039-2043	3,845,000	2,560,700	6,405,700
2044-2048	5,225,000	1,709,400	6,934,400
2049-2051	5,290,000	484,000	5,774,000
Total	<u>\$ 20,030,000</u>	<u>\$ 15,140,500</u>	<u>\$ 35,170,500</u>

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.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Debt 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, 2023, the District had remaining authorized but unissued indebtedness of \$240,008,621.

NOTE 6 RELATED PARTIES

All of the members of the Board of Directors are employees and are associated CDG Morgan Hill, the Developer within the District and may have conflicts of interest in dealing with the District.

NOTE 7 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 homeowners association (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 Operations & Maintenance (O&M) carve-out, District No. 1 and District No. 2 pledge their share of bond repayment costs. The O&M carve-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.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 7 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.

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). 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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2023**

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations, which apply to the state of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

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

NOTE 10 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. As of December 31, 2023, the District had restricted net position as follows:

	Governmental Activities
Restricted Net Position:	
Emergencies	\$ 47,700
Debt Service Reserve	722,227
Capital Projects Reserve	1,436,517
Total Restricted Net Position	\$ 2,206,444

The District had a deficit net position at December 31, 2023. This deficit amount is the result of the District being responsible for the repayment of debt issued for public improvements.

OTHER INFORMATION

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
YEAR ENDED DECEMBER 31, 2023**

Bonds/Loans and Interest Maturing in the Year Ending December 31,	\$20,030,000 General Obligation (Limited Tax) Refunding Bonds and Improvement Bonds Interest Rate 3.00 - 4.00% Series 2021A Dated November 10, 2021 Interest Payable June 1 and December 1 Principal Payable December 1		
	Principal	Interest	Total
2024	\$ -	\$ 752,250	\$ 752,250
2025	20,000	752,250	772,250
2026	220,000	751,650	971,650
2027	285,000	745,050	1,030,050
2028	325,000	736,500	1,061,500
2029	335,000	726,750	1,061,750
2030	380,000	716,700	1,096,700
2031	390,000	705,300	1,095,300
2032	435,000	693,600	1,128,600
2033	450,000	678,375	1,128,375
2034	500,000	662,625	1,162,625
2035	520,000	645,125	1,165,125
2036	570,000	626,925	1,196,925
2037	590,000	606,975	1,196,975
2038	650,000	586,325	1,236,325
2039	670,000	563,575	1,233,575
2040	735,000	540,125	1,275,125
2041	760,000	514,400	1,274,400
2042	825,000	487,800	1,312,800
2043	855,000	454,800	1,309,800
2044	935,000	420,600	1,355,600
2045	970,000	383,200	1,353,200
2046	1,050,000	344,400	1,394,400
2047	1,090,000	302,400	1,392,400
2048	1,180,000	258,800	1,438,800
2049	1,225,000	211,600	1,436,600
2050	1,320,000	162,600	1,482,600
2051	2,745,000	109,800	2,854,800
Total	\$ 20,030,000	\$ 15,140,500	\$ 35,170,500

MORGAN HILL METROPOLITAN DISTRICT NO. 3
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2023

Year Ended <u>December 31,</u>	Assessed Valuation	Total Mills Levied		Total Property Taxes		Percent Collected to Levied
		General Operations	Debt Service	Levied	Collected	
2019	\$ 36,651,620	55.275	0.000	\$ 2,025,918	\$ 2,008,438	99.14 %
2020	47,916,800	55.663	0.000	2,667,193	2,667,193	100.00 %
2021	18,645,640	55.663	0.000	1,037,872	1,037,872	100.00 %
2022	5,606,690	0.000	55.663	312,085	312,086	100.00 %
2023	13,388,910	0.000	57.220	766,113	764,763	99.82 %
Estimated for Year Ending December 31 2024	\$ 16,903,860	0.000	59.467	\$ 1,005,222		