

MORGAN HILL METROPOLITAN DISTRICT NO. 3

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 3, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 3 as of December 31, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 21 be presented to supplement the basic financial statements. Such 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. 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 omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
March 5, 2021

MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF NET POSITION
DECEMBER 31, 2020

	Governmental Activities
ASSETS	
Cash and Investments	\$ 3,927,989
Restricted Cash	11,617,115
Refundable Deposit	31,734
Property Taxes Receivable	1,037,872
Due from Other Governments	9,714
Prepaid Expenses	2,261
Construction in Progress	639,322
Total Assets	17,266,007
LIABILITIES	
Accounts Payable	55,388
Accrued Interest	100,288
Noncurrent Liabilities:	
Due in More Than One Year:	
Limited Tax Obligation Notes	16,349,623
Limited Tax Obligation Bonds	4,000,000
Total Liabilities	20,505,299
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	1,037,872
Total Deferred Inflows of Resources	1,037,872
NET POSITION	
Restricted for TABOR	84,505
Unrestricted	(4,361,669)
Total Net Position	\$ (4,277,164)

See accompanying Notes to Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

Functions/Programs	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities:			
General Government	\$ 149,610	\$ -	\$ (149,610)
Interest and Related Costs on Long-Term Debt	608,514	-	(608,514)
	\$ 758,124	\$ -	(758,124)
General Revenues:			
			2,667,193
			126,600
			24,437
			23,039
			2,841,269
			2,083,145
			(6,360,309)
			\$ (4,277,164)

See accompanying Notes to Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2020**

	General Fund
ASSETS	
Cash and Investments	\$ 3,927,989
Restricted Cash	11,617,115
Refundable Deposit	31,734
Property Tax Receivable	1,037,872
Due from Other Governments	9,714
Prepaid Items	2,261
Total Assets	\$ 16,626,685
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts Payable	55,388
Total Liabilities	55,388
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	\$ 1,037,872
Total Deferred Inflows of Resources	1,037,872
FUND BALANCE	
Nonspendable	2,261
Restricted for:	
TABOR	84,505
Capital Projects	11,565,871
Unassigned	3,880,788
Total Fund Balance	15,533,425
Total Deferred Inflows of Resources, and Fund Balance	\$ 16,626,685

See accompanying Notes to Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Total Fund Balance - Total Governmental Fund	\$ 15,533,425
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund balance sheet.	
Construction in Progress	639,322
Accrued interest payable is recognized for governmental activities, therefore, is not reported as a liability in the governmental fund.	
	(100,288)
Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet.	
Limited Tax Revenues Bonds	(4,000,000)
Limited Tax Revenues Notes	(16,349,623)
	<u>(20,349,623)</u>
Net Position of Governmental Activities	<u>\$ (4,277,164)</u>

See accompanying Notes to Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2020**

	General Fund
REVENUES	
Property Tax Income	\$ 2,667,193
Specific Ownership Taxes	126,600
Intergovernmental - Morgan Hill Metropolitan District No. 1	24,437
Net Investment Income	23,039
Total Revenues	2,841,269
EXPENDITURES	
Current:	
Audit	6,405
Accounting	6,576
Treasurer's Fee	40,184
Insurance	2,386
Miscellaneous	94,059
Debt Service:	
Interest and Fiscal Charges	554,428
Capital Outlay	639,322
Total Expenditures	1,343,360
DEFICIENCY OF REVENUE UNDER EXPENDITURES	1,497,909
OTHER FINANCING SOURCES	
Proceeds from Developer Advances	12,169,273
NET CHANGES IN FUND BALANCE	13,667,182
Fund Balance - Beginning of Year	1,866,243
FUND BALANCE - END OF YEAR	\$ 15,533,425

See accompanying Notes to 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, 2020**

Net Change in Fund Balance - Total Governmental Fund	\$ 13,667,182
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental fund reports capital outlays as expenditures. However, for government activities, those capital outlays other than noncapitalizable items are shown in the statement of activities at cost.</p>	
Capital Outlay	639,322
<p>The issuance of long-term debt provides current financial resources to the governmental fund, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>	
Proceeds from Debt Instrument	(12,169,273)
<p>An increase in accrued interest does not have any impact on governmental fund expenditures. This transaction, however, does increase the amount of interest expense on the statement of activities.</p>	
Accrued Interest	<u>(54,086)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 2,083,145</u></u>

See accompanying Notes to Financial Statements.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 DEFINITION OF REPORTING ENTITY

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

The District was established to provide financing for the design, acquisition, construction, and completion of public improvements, including streets, traffic and safety controls and devices, transportation services, park and recreation, water, mosquito and pest control and sanitation facilities, generally located in the collector roadway system, services and programs. The operation and maintenance of all other services and facilities is anticipated to be provided by other entities and not by the District.

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Increases in bonds payable are recorded as an increase in liabilities.

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

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

The District reports the following major governmental fund:

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

Budgets

In accordance with the State Budget Law, the District's board of directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The adopted budgets for the General Fund and Debt Service fund have been consolidated and reflected as the General Fund Budget for financial reporting purposes.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal instalments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally, sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

Fund Balance and Net Position

Net position is reported in the governmental activities and is classified as restricted or unrestricted. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. As of December 31, 2020, fund balances of governmental funds are classified as follows:

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

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

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

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

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

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. In compliance with this requirement, \$84,505 of the General Fund balance has been restricted.

The District has a balance of \$11,617,115 in cash held in escrow, which is considered restricted fund balance for capital projects reduced by the amount of accounts payable that is related to capital projects for a total restricted balance of \$11,565,871.

Nonspendable fund balance of \$2,261 is equal to the amount of prepaid insurance for the District that will benefit a future period.

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

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2020 consist of the following:

Cash Deposits	\$ 10,853
Restricted Cash Held in Escrow	11,617,115
Investments	3,917,136
Total Cash	<u>\$ 15,545,104</u>

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The fair value of the collateral must be at least equal to the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2020, the District's cash deposits had a carrying balance of \$11,627,968.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments

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

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

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

As of December 31, 2020, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amortized Cost</u>
Colorado Surplus Asset Fund Trust *	Less than One Year	<u>\$ 3,917,136</u>

As of December 31, 2020, the District had invested \$3,917,136 in the Colorado Surplus Asset Fund Trust, an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAAM by Standard & Poor's and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 4 LONG-TERM OBLIGATIONS

The District's long-term obligations consist of the following for the year ended December 31, 2020:

	Balance at January 1, 2020	Additions	Reductions	Balance at December 31, 2020	Due Within One Year
Limited Tax Revenue Bonds - Series 2018A	\$ 4,000,000	\$ -	\$ -	\$ 4,000,000	\$ -
Limited Tax Revenue Notes - Series 2018B	4,180,350	12,169,273	-	16,349,623	-
 Total Long-Term Obligations	 <u>\$ 8,180,350</u>	 <u>\$ 12,169,273</u>	 <u>\$ -</u>	 <u>\$ 20,349,623</u>	 <u>\$ -</u>

Series 2018A Bonds

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

The 2018A Bonds are secured by and payable from Pledged Revenue, which includes amounts collected by the District from the imposition of the Required Mill Levy, net of the cost of collection, specific ownership taxes allocable to the Required Mill Levy, amounts received from District No. 1 and District No. 2, and any other legally available moneys of the District. The Required Mill Levy is defined in the Trust Indenture as a mill levy imposed upon all taxable property of the District each year. Additionally, a guaranty agreement dated July 10, 2018 was made by CDG Morgan Hill, Inc. in favor of the bond holders. The agreement states that in the case of the failure or inability of the District to pay any guaranteed obligation when due, the Guarantor (CDG Morgan Hill) irrevocably and unconditionally agrees pay the amounts due.

Bond interest is payable semi-annually on June 1 and December 1 of each year, with the principal due at maturity on December 1, 2023. The interest rate is 5.5% and interest is computed on the basis of a 360-day year of twelve 30-day months. The District paid and incurred \$220,000 in interest expense on the 2018A Bonds during the year ended December 31, 2020.

The following summarizes the debt service requirements to maturity for the 2018A Bond:

Year Ending December 31,	Principal	Interest	Total
2021	\$ -	\$ 220,000	\$ 220,000
2022	-	220,000	220,000
2023	4,000,000	201,667	4,201,667
Total	<u>\$ 4,000,000</u>	<u>\$ 641,667</u>	<u>\$ 4,641,667</u>

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Series 2018B Note

The District issued the 2018B Limited Tax Obligation Note on August 14, 2018 for an amount not to exceed \$20,000,000 with the ability to draw on the Note as needed. The Series 2018B Bonds were sold exclusively to CDG Morgan Hill, Inc. The proceeds of such debt were used to refund certain amounts due on District No. 1's outstanding Capital Loans and operations of District No.1. The bonds constitute an irrevocable lien upon the Subordinate Pledged Revenue, and due to the limited nature of the Subordinate Pledged Revenue, failure to pay principal or interest on the bonds when due shall not constitute an event of default. Interest payments are due annually on December 1 of each year, with the principal due at maturity on December 1, 2048. The interest rate is 8.0% and interest is computed on the basis of a 360-day year of twelve 30-day months. On December 10, 2020, there was an additional draw on the 2018B Note for \$12,169,273, bringing the total outstanding balance of the 2018B Note to \$16,349,623. The District paid \$334,428 of interest and incurred \$388,514 in interest expense on the 2018B Note during the year ended December 31, 2020.

The following summarizes the debt service requirements to maturity for the 2018B Note:

Year Ending December 31,	Principal	Interest	Total
2021	\$ -	\$ 1,307,970	\$ 1,307,970
2022	-	1,307,970	1,307,970
2023	-	1,307,970	1,307,970
2024	-	1,307,970	1,307,970
2025	-	1,307,970	1,307,970
2026-2030	-	6,539,849	6,539,849
2031-2035	-	6,539,849	6,539,849
2036-2040	-	6,539,849	6,539,849
2041-2045	-	6,539,849	6,539,849
2046-2048	16,349,623	3,814,912	20,164,536
Total	<u>\$ 16,349,623</u>	<u>\$ 36,514,159</u>	<u>\$ 52,863,782</u>

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, 2020, the District had remaining authorized but unissued indebtedness of \$248,650,377.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5 CONSTRUCTION IN PROGRESS

An analysis of the changes in construction in progress for the year ended December 31, 2020 follows:

	Balance at January 1, 2020	Additions	Reductions	Balance at December 31, 2020
Construction in Progress	\$ -	\$ 639,322	\$ -	\$ 639,322

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

On December 20, 2019, Morgan Hill Metropolitan District No. 3 entered into a Relinquishment of Surface Rights Agreement with K.P. Kauffman Company, Inc. regarding specific oil and gas sites operated by KPK. The total consideration to be paid to KPK by the District for KPK's relinquishment, extinguishment or restriction of its Surface Rights in "Section 7", (Township 1 North, Range 68 West of the PM, County of Weld, State of Colorado) is \$50,000. At the initial closing on January 29, 2020, the District paid \$25,000 of the consideration as a partial payment. The remaining balance of \$25,000 was paid to KPK on April 2, 2020 upon completing the process of plugging the well. The \$50,000 paid to KPK for surface rights was recorded as an addition to Construction in Progress and will be reclassified to land upon completion of the real property transfer to the District.

NOTE 6 RELATED PARTY

All of the members of the board of directors are employees or are associated with Bellock Construction Company, the Construction Manager and accountants for the District, and Frederick Development Company, Inc., the Developer within the District. During 2020, District No. 1, District No. 2 and the District had the same board of directors.

Construction Management Agreement

A construction management agreement was entered into during 2009 between District No.1, District No. 2, the District, and Bellock Construction Company. The agreement calls for Bellock Construction Company to provide management services of all activities related to construction projects to be completed within Morgan Hill Metropolitan Districts No. 1, No. 2 and No. 3. The agreement expires on December 31 of each year, but is automatically extended for a successive annual period so long as sufficient funds have been appropriated, unless contrary action is taken. The amount paid to Bellock Construction Company during 2020 for construction and construction management was \$33,256.

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company on April 23, 2009. Under this agreement, accounting services are provided to District No. 1, No. 2 and No. 3 at the hourly annual rates of Bellock Construction Company employees. During 2020, the District incurred \$6,576 in accounting services fees.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

In order to implement the Service Plan, the District entered into an intergovernmental agreement with District No. 1 and District No. 2. The agreement shall remain in full force and effect until such time as each of the terms and conditions has been performed in their entirety or until the agreement is terminated by mutual written agreement of the Districts.

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

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

Warranty of Public Improvements

In 2020, Community Development Group of Morgan Hill, Inc. (CDG of Morgan Hill, Inc.) entered into a Development Agreement with the Town of Erie. As part of the agreement, CDG of 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 of 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 of Morgan Hill Inc., and the District entered into the agreement for the Filing 2 Improvements. At the date of the agreement the estimated cost to complete and balance of the letter of credit was \$6,031,442. As of December 31, 2020, the estimated cost to complete the remaining improvements and the remaining balance of the letters of credit are \$6,031,442.

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 (Pool) as of December 31, 2020. 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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 8 RISK MANAGEMENT (CONTINUED)

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

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

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

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

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

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

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

NOTE 10 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenses occurred during fiscal year ended December 31, 2020:

	<u>Morgan Hill Metropolitan District No. 1</u>	<u>Morgan Hill Metropolitan District No. 2</u>	<u>Morgan Hill Metropolitan District No. 3</u>	<u>Total Revenues</u>
Morgan Hill Metropolitan:				
District No. 1	\$ -	\$ 594,463	\$ -	\$ 594,463
District No. 2	11,699	-	-	11,699
District No. 3	24,437	-	-	24,437
Total Expenditures	<u>\$ 36,136</u>	<u>\$ 594,463</u>	<u>\$ -</u>	<u>\$ 630,599</u>

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 11 NET POSITION

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

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

The District had a deficit net position at December 31, 2020 of \$4,277,164. This deficit amount is the result of the District being responsible for the repayment of debt issued for public improvements.

REQUIRED SUPPLEMENTARY INFORMATION

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2020**

	Original & Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 2,667,193	\$ 2,667,193	\$ -
Specific Ownership Taxes	180,036	126,600	(53,436)
Intergovernmental - Morgan Hill Metropolitan District No. 1	10,500	24,437	13,937
Net Investment Income	-	23,039	23,039
Total Revenues	<u>2,857,729</u>	<u>2,841,269</u>	<u>(16,460)</u>
EXPENDITURES			
Current:			
Audit	7,000	6,405	595
Accounting	-	6,576	(6,576)
Treasurer's Fee	40,008	40,184	(176)
Insurance	2,500	2,386	114
Miscellaneous	1,000	94,059	(93,059)
Intergovernmental - Morgan Hill District No. 1	13,050,000	-	13,050,000
Capital Outlay	-	639,322	(639,322)
Debt Service Interest	638,035	554,428	83,607
Total Expenditures	<u>13,738,543</u>	<u>1,343,360</u>	<u>12,395,183</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(10,880,814)	1,497,909	12,378,723
OTHER FINANCING SOURCES			
Proceeds from Developer advances	<u>11,500,000</u>	<u>12,169,273</u>	<u>669,273</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	619,186	13,667,182	13,047,996
Fund Balances - Beginning of Year	<u>1,852,500</u>	<u>1,866,243</u>	<u>13,743</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 2,471,686</u></u>	<u><u>\$ 15,533,425</u></u>	<u><u>\$ 13,061,739</u></u>