

MORGAN HILL METROPOLITAN DISTRICT NOS. 1, 2 AND 3

2023 CONSOLIDATED ANNUAL REPORT TO THE TOWN OF ERIE, COLORADO

Pursuant to §32-1-207(3)(c), C.R.S. and Section VII. of the Consolidated Service Plan for Morgan Hill Metropolitan District Nos. 1, 2 and 3 (collectively the “**Districts**”), the Districts are required to provide an annual report to the Town of Erie (the “**Town**”) with regard to the following matters:

For the year ending December 31, 2023, the Districts make the following report:

§32-1-207(3), C.R.S. Statutory Requirements

1. Boundary changes made.

There were no boundary changes made to the Districts’ boundaries in 2023.

2. Intergovernmental agreements entered into or terminated with other governmental entities.

The Districts did not enter into or terminate any intergovernmental agreements with other governmental entities in 2023.

3. Access information to obtain a copy of rules and regulations adopted by the board.

As of December 31, 2023, the Districts had not adopted any rules and regulations.

4. A summary of litigation involving public improvements owned by the Districts.

To our actual knowledge, based on review of the court records in Weld County, Colorado and the Public Access to Court Electronic Records (PACER), there is no litigation involving the Districts’ public improvements as of December 31, 2023.

5. The status of the construction of public improvements by the Districts.

All public improvements within Filing Nos. 1 and 2 have been completed.

6. A list of facilities or improvements constructed by the Districts that were conveyed or dedicated to the county or municipality.

No public improvements were dedicated or conveyed to the Town in 2023.

7. The final assessed valuation of the Districts as of December 31st of the reporting year.

The 2023 final assessed valuation as certified by the Weld County Assessor for the Districts is as follows:

District No. 1	\$7,278,890
District No. 2	\$11,534,400
District No. 3	\$16,903,860

8. A copy of the current year’s budget.

*Copies of the 2023 Budgets are attached hereto as **Exhibit A**.*

9. A copy of the audited financial statements, if required by the “Colorado Local Government Audit Law”, part 6 of article 1 of title 29, or the application for exemption from audit, as applicable.

*Copies of the 2022 Audits are attached hereto as **Exhibit B**.*

10. Notice of any uncured defaults existing for more than ninety (90) days under any debt instrument of the Districts.

There were no uncured events of default that continued beyond a ninety (90) day period, under any Debt instrument.

11. Any inability of the Districts to pay their obligations as they come due under any obligation which continues beyond a ninety (90) day period.

The Districts did not experience any inability to pay their obligations as they came due, in accordance with the terms of such obligations, which continue beyond a ninety (90) day period.

Service Plan Requirements

12. A narrative summary of the progress of the Districts in Implementing the Service Plan.

All public improvements contemplated to be constructed by the Districts have been started and a majority of the improvements have been completed. All of the public improvements within Morgan Hill Filing No. 1 are complete and have been accepted and conveyed to the Town of Erie and/or the homeowner’s association. The Morgan Hill Filing No. 2 public improvements are currently within the 2-year warranty period.

13. Unless disclosed within a separate schedule to the financial statements, a summary of the capital expenditures incurred by the Districts in development of public facilities in the fiscal year, as well as any capital improvements or projects proposed to be undertaken in the five (5) years following the fiscal year.

The capital expenditures incurred in 2023 were warranty costs to maintain the Morgan Hill Filing No. 2 public improvements, including the Amenity Building and Pool. All of the public facilities have been constructed. The remaining capital expenditures are expected to be spent between 4th Quarter of 2024 and 2nd Quarter of 2025 and will include warranty maintenance and repairs on the Filing No. 2 public improvement.

14. Unless disclosed within a separate schedule to the financial statements, a summary of the financial obligations of the Districts at the end of the fiscal year, including the amount of outstanding indebtedness, the amount and terms of any new District indebtedness or long-term obligations issued in the fiscal year, the amount of payment or retirement of existing indebtedness of the Districts in the fiscal year, the total assessed valuation of all taxable properties within the Districts as of January 1 of the fiscal year, and the current mill levy of the District pledged to debt retirement in the fiscal year.

District No. 3 issued its Series 2018 A and B bonds which were refinanced with the issuance of the Series 2021A and 2021B Bonds, and also issued it Series 2021C Subordinate Bonds as shown in its audit.

2023 Assessed Value District No. 1: \$7,278,890 with 44.571 mills for contractual pledge agreement obligations related to the District No. 3 Bonds.

2023 Assessed Value District No. 2: \$11,534,400 with 61.737mills for contractual pledge agreement obligation related to the District No. 3 Bonds.

2023 Assessed Value District No. 3: \$16,903,860 with 59.467 mills for debt service.

15. A summary of residential and commercial development which has occurred within the Districts for the fiscal year.

A total of 93 single-family residential units were started and 178 single-family residential units were completed during fiscal year 2023. There is no commercial development within the Districts.

16. A summary of all taxes, fees, charges and assessments imposed by the Districts as of January 1 of the fiscal year.

No fees, charges or assessments were imposed by the Districts in 2023.

<i>District</i>	<i>2023 Property Taxes Assessed</i>
<i>Morgan Hill MD No. 1</i>	<i>\$306,041.17</i>
<i>Morgan Hill MD No. 2</i>	<i>399,479.14</i>

<i>Morgan Hill</i> <i>MD No. 3</i>	766,113.43
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17. The name, business address and telephone number of each member of the Boards and the chief administrative officer and general counsel, together with the date, place and time of the regular meetings of the Boards.

<i>Jon R. Lee</i>	<i>President</i>	<i>2500 Arapahoe Ave., #220, Boulder, CO 80302, (303) 442-2299</i>
<i>Jessica Brothers</i>	<i>Sec./Treasurer</i>	<i>2500 Arapahoe Ave., #220, Boulder, CO 80302, (303) 442-2299</i>
<i>Vacancy</i>		
<i>Vacancy</i>		
<i>Vacancy</i>		

Regular meetings are scheduled for the 4th Thursday of April and October, 2:30 p.m., at 2500 Arapahoe Ave., #220, Boulder, CO 80302 and/or via Zoom Teleconference.

Chief Admin. Officer – None

General Legal Counsel – White Bear Ankele Tanaka & Waldron; Attn: Sean Allen, Esq., 2154 E. Commons Avenue, Suite 2000, Centennial, CO 80122; 303-858-1800

EXHIBIT A
2024 Budgets

MORGAN HILL METROPOLITAN DISTRICT NO. 1
ANNUAL BUDGET
FOR THE YEAR ENDING DECEMBER 31, 2024

MORGAN HILL METROPOLITAN DISTRICT NO. 1
PROPERTY TAX SUMMARY INFORMATION
2024 BUDGET
WITH 2022 ACTUAL AND 2023 ESTIMATED
For the Years Ended and Ending December 31,

1/27/24

ACTUAL	ESTIMATED	BUDGET
2022	2023	2024

ASSESSED VALUATION

Residential	\$ 1,774,600	\$ 4,424,020	\$ 6,171,500
Commercial		160	450
Agricultural	740	-	-
State assessed	93,270	112,620	80,270
Vacant land	491,420	80,770	346,710
Oil and gas	727,810	730,930	679,960
Certified Assessed Value	\$ 3,087,840	\$ 5,348,500	\$ 7,278,890

MILL LEVY

General	55.663	57.220	19.102
Debt Service	0.000	0.000	44.571
Total mill levy	55.663	57.220	63.673

PROPERTY TAXES

General	\$ 171,878	\$ 306,041	\$ 139,041
Debt Service	-	-	324,427
Levied property taxes	171,878	306,041	463,468
Adjustments to actual/rounding	1	-	-
Refunds and abatements	-	(1,845)	-
Budgeted property taxes	\$ 171,879	\$ 304,196	\$ 463,468

BUDGETED PROPERTY TAXES

General	\$ 171,879	\$ 304,196	\$ 139,041
Debt Service	-	-	324,427
	\$ 171,879	\$ 304,196	\$ 463,468

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
GENERAL FUND
2024 BUDGET
WITH 2022 ACTUAL AND 2023 ESTIMATED
For the Years Ended and Ending December 31,**

1/26/24

	ACTUAL 2022	ESTIMATED 2023	BUDGET 2024
BEGINNING FUND BALANCES	\$ 362,258	\$ 92,386	\$ 47,311
REVENUES			
Property taxes	171,879	304,196	463,468
Specific ownership taxes	10,173	12,500	18,539
Interest income	4,213	3,500	3,000
Other revenue	6	5	-
Transfers from Morgan Hill Metro District No. 2	1,712,231	-	-
Total revenues	<u>1,898,502</u>	<u>320,201</u>	<u>485,007</u>
Total funds available	<u>2,260,760</u>	<u>412,587</u>	<u>532,318</u>
EXPENDITURES			
General and administrative			
Accounting	18,474	25,000	25,000
Auditing	12,075	28,140	19,500
County Treasurer's fee	2,581	4,563	6,952
Directors' fees	-	60	60
Dues and membership	-	1,734	1,900
Insurance	2,901	6,445	7,000
District management	-	4,000	-
Legal	17,013	18,000	20,000
Miscellaneous	10,627	5,000	5,000
Contingency	-	-	3,550
Letter of credit fees	6,251	8,500	8,500
Transfers to Morgan Hill Metro District No. 2	13,768	-	-
Transfers to Morgan Hill Metro District No. 3	1,985,569	223,834	332,538
Capital outlay	99,115	40,000	-
Total expenditures	<u>2,168,374</u>	<u>365,276</u>	<u>430,000</u>
Total expenditures and transfers out requiring appropriation	<u>2,168,374</u>	<u>365,276</u>	<u>430,000</u>
ENDING FUND BALANCES	<u>\$ 92,386</u>	<u>\$ 47,311</u>	<u>\$ 102,318</u>
EMERGENCY RESERVE	\$ 57,000	\$ 9,700	\$ 14,600
AVAILABLE FOR OPERATIONS	35,386	37,611	87,718
TOTAL RESERVE	<u>\$ 92,386</u>	<u>\$ 47,311</u>	<u>\$ 102,318</u>

No assurance provided. See summary of significant assumptions.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
2024 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Services Provided

In accordance with its Service Plan, Morgan Hill Metropolitan District No. 1 (the “District”) was formed to provide for the planning, design, acquisition, construction, installation, redevelopment, maintenance and financing of the public improvements for a portion of the property known as “Morgan Hill,” which is located in Erie, Colorado. Such public improvements include, but are not limited to, streets, traffic and safety controls, water, storm and sanitary sewer, utilities and parks and recreation improvements.

The Service Plan, as amended in 2017, permits the District to impose a maximum mill levy on the taxable property within its boundaries as a primary source of revenue for the construction and maintenance of public improvements, repayment of debt and operational costs. The Service Plan also provides a combined total debt issuance limitation in an aggregate principal amount not to exceed \$35,000,000 for Morgan Hill Metropolitan District Nos. 1, 2 and 3.

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

The District prepares its budget on the modified accrual basis of accounting in accordance with the requirements of Colorado Revised Statutes C.R.S. 29-1-105 using its best estimates as of the date of the budget hearing. These estimates are based on expected conditions and its expected course of actions. The assumptions disclosed herein are those that the District believes are significant to the budget. There will usually be differences between the budget and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Revenues

Property Taxes

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

For property tax collection year 2024, SB22-238 and SB23B-001 set the assessment rates and actual value reductions as follows:

Category	Rate	Category	Rate	Actual Value Reduction	Amount
Single-Family Residential	6.70%	Agricultural Land	26.40%	Single-Family Residential	\$55,000
Multi-Family Residential	6.70%	Renewable Energy Land	26.40%	Multi-Family Residential	\$55,000
Commercial	27.90%	Vacant Land	27.90%	Commercial	\$30,000
Industrial	27.90%	Personal Property	27.90%	Industrial	\$30,000
Lodging	27.90%	State Assessed	27.90%	Lodging	\$30,000
		Oil & Gas Production	87.50%		

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
2024 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Revenues – (continued)

Specific Ownership Taxes

Specific ownership taxes are set by the State and collected by the County Treasurer, primarily on vehicle licensing within the County as a whole. The specific ownership taxes are allocated by the County Treasurer to all taxing entities within the County. The budget assumes that the District's share will be equal to approximately 4% of the property taxes collected.

Interest Income

Interest earned on the District's available funds has been estimated based on an average interest rate of approximately 4%.

Expenditures

General and Administrative

General and administrative expenditures include the services necessary to maintain the District's administrative viability such as legal, accounting, insurance, and other administrative expenses.

Intergovernmental Transfers

The District is obligated to impose a mill levy which will be sufficient to promptly and fully pay amounts to Morgan Hill Metropolitan District No. 3 ("District No. 3). The District is required to remit property taxes derived from such mill levy, together with specific ownership taxes applicable to property within the District less County Treasurer Fees, to District No. 3. The District anticipates transferring funds to District No. 3, as shown in the General Fund budget for payments on Bonds.

Debt and Leases

The District has no debt or leases.

Reserves

Emergency Reserve

The District has provided for an emergency reserve fund equal to at least 3% of fiscal year spending as defined under TABOR.

This information is an integral part of the accompanying budget.

MORGAN HILL METROPOLITAN DISTRICT NO. 2
ANNUAL BUDGET
FOR THE YEAR ENDING DECEMBER 31, 2024

MORGAN HILL METROPOLITAN DISTRICT NO. 2
PROPERTY TAX SUMMARY INFORMATION
2024 BUDGET
WITH 2022 ACTUAL AND 2023 ESTIMATED
For the Years Ended and Ending December 31,

1/26/24

ACTUAL	ESTIMATED	BUDGET
2022	2023	2024

ASSESSED VALUATION

Residential	\$ -	\$ 68,220	\$ 3,935,440
Agricultural	1,390	-	-
State assessed	55,230	69,590	57,120
Vacant land	15,890	975,880	193,860
Other	4,051,190	5,867,770	7,347,980
Certified Assessed Value	\$ 4,123,700	\$ 6,981,460	\$ 11,534,400

MILL LEVY

General	55.663	57.220	61.737
Total mill levy	55.663	57.220	61.737

PROPERTY TAXES

General	\$ 229,538	\$ 399,479	\$ 712,099
Levied property taxes	229,538	399,479	712,099
Refunds and abatements	-	(797)	-
Budgeted property taxes	\$ 229,538	\$ 398,682	\$ 712,099

BUDGETED PROPERTY TAXES

General	\$ 229,538	\$ 398,682	\$ 712,099
	\$ 229,538	\$ 398,682	\$ 712,099

**MORGAN HILL METROPOLITAN DISTRICT NO. 2
GENERAL FUND
2024 BUDGET
WITH 2022 ACTUAL AND 2023 ESTIMATED
For the Years Ended and Ending December 31,**

1/26/24

	ACTUAL 2022	ESTIMATED 2023	BUDGET 2024
BEGINNING FUND BALANCES	\$ 1,489,314	\$ 37,218	\$ 42,218
REVENUES			
Property taxes	229,538	398,682	712,099
Specific ownership taxes	13,585	16,562	28,484
Interest income	22,758	5,000	1,500
Transfers from Morgan Hill Metro District No. 1	13,768	-	-
Total revenues	<u>279,649</u>	<u>420,244</u>	<u>742,083</u>
Total funds available	<u>1,768,963</u>	<u>457,462</u>	<u>784,301</u>
EXPENDITURES			
General and administrative			
Accounting	6,305	-	-
Auditing	7,035	-	-
County Treasurer's fee	3,443	5,980	10,681
Insurance	1,906	-	-
Miscellaneous	825	-	-
Contingency	-	-	2,417
Transfers to Morgan Hill Metro District No. 1	1,712,231	-	-
Transfers to Morgan Hill Metro District No. 3	-	409,264	729,902
Total expenditures	<u>1,731,745</u>	<u>415,244</u>	<u>743,000</u>
Total expenditures and transfers out requiring appropriation	<u>1,731,745</u>	<u>415,244</u>	<u>743,000</u>
ENDING FUND BALANCES	<u>\$ 37,218</u>	<u>\$ 42,218</u>	<u>\$ 41,301</u>
EMERGENCY RESERVE	\$ 8,400	\$ 12,700	\$ 22,300
AVAILABLE FOR OPERATIONS	28,818	29,518	19,001
TOTAL RESERVE	<u>\$ 37,218</u>	<u>\$ 42,218</u>	<u>\$ 41,301</u>

**MORGAN HILL METROPOLITAN DISTRICT NO. 2
2024 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Services Provided

In accordance with its Service Plan, Morgan Hill Metropolitan District No. 2 (the “District”) was formed to provide for the planning, design, acquisition, construction, installation, redevelopment, maintenance and financing of the public improvements for a portion of the property known as “Morgan Hill,” which is located in Erie, Colorado. Such public improvements include, but are not limited to, streets, traffic and safety controls, water, storm and sanitary sewer, utilities and parks and recreation improvements.

The Service Plan, as amended in 2017, permits the District to impose a maximum mill levy on the taxable property within its boundaries as a primary source of revenue for the construction and maintenance of public improvements, repayment of debt and operational costs. The Service Plan also provides a combined total debt issuance limitation in an aggregate principal amount not to exceed \$35,000,000 for Morgan Hill Metropolitan District Nos. 1, 2 and 3.

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

The District prepares its budget on the modified accrual basis of accounting in accordance with the requirements of Colorado Revised Statutes C.R.S. 29-1-105 using its best estimates as of the date of the budget hearing. These estimates are based on expected conditions and its expected course of actions. The assumptions disclosed herein are those that the District believes are significant to the budget. There will usually be differences between the budget and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Revenues

Property Taxes

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

For property tax collection year 2024, SB22-238 and SB23B-001 set the assessment rates and actual value reductions as follows:

Category	Rate		Category	Rate	Actual Value Reduction	Amount
Single-Family Residential	6.70%		Agricultural Land	26.40%	Single-Family Residential	\$55,000
Multi-Family Residential	6.70%		Renewable Energy Land	26.40%	Multi-Family Residential	\$55,000
Commercial	27.90%		Vacant Land	27.90%	Commercial	\$30,000
Industrial	27.90%		Personal Property	27.90%	Industrial	\$30,000
Lodging	27.90%		State Assessed	27.90%	Lodging	\$30,000
			Oil & Gas Production	87.50%		

**MORGAN HILL METROPOLITAN DISTRICT NO. 2
2024 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Revenues – (continued)

Specific Ownership Taxes

Specific ownership taxes are set by the State and collected by the County Treasurer, primarily on vehicle licensing within the County as a whole. The specific ownership taxes are allocated by the County Treasurer to all taxing entities within the County. The budget assumes that the District's share will be equal to approximately 4% of the property taxes collected.

Interest Income

Interest earned on the District's available funds has been estimated based on an average interest rate of approximately 4%.

Expenditures

Intergovernmental Transfers

The District is obligated to impose a mill levy which will be sufficient to promptly and fully pay amounts to Morgan Hill Metropolitan District No. 3 ("District No. 3). The District is required to remit property taxes derived from such mill levy, together with specific ownership taxes applicable to property within the District less County Treasurer Fees, to District No. 3. The District anticipates transferring funds to District No. 3, as shown in the General Fund budget for payments on Bonds.

Debt and Leases

The District has no debt or leases.

Reserves

Emergency Reserve

The District has provided for an emergency reserve fund equal to at least 3% of fiscal year spending as defined under TABOR.

This information is an integral part of the accompanying budget.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
ANNUAL BUDGET
FOR THE YEAR ENDING DECEMBER 31, 2024

MORGAN HILL METROPOLITAN DISTRICT NO. 3
PROPERTY TAX SUMMARY INFORMATION
2024 BUDGET
WITH 2022 ACTUAL AND 2023 ESTIMATED
For the Years Ended and Ending December 31,

1/27/24

ACTUAL	ESTIMATED	BUDGET
2022	2023	2024

ASSESSED VALUATION

Residential	\$ -	\$ -	\$ 41,090
Commercial	-	-	160
Agricultural	2,150	10	10
State assessed	31,300	95,380	24,630
Vacant land	1,950	200,870	1,934,220
Oil and gas	5,571,290	13,092,650	14,903,750
Certified Assessed Value	\$ 5,606,690	\$ 13,388,910	\$ 16,903,860

MILL LEVY

General	55.663	57.220	59.467
Total mill levy	55.663	57.220	59.467

PROPERTY TAXES

General	\$ 312,085	\$ 766,113	\$ 1,005,222
Levied property taxes	312,085	766,113	1,005,222
Adjustments to actual/rounding	1	-	-
Refunds and abatements	-	(1,350)	-
Budgeted property taxes	\$ 312,086	\$ 764,763	\$ 1,005,222

BUDGETED PROPERTY TAXES

General	\$ 312,086	\$ 764,763	\$ 1,005,222
	\$ 312,086	\$ 764,763	\$ 1,005,222

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
GENERAL FUND
2024 BUDGET
WITH 2022 ACTUAL AND 2023 ESTIMATED
For the Years Ended and Ending December 31,**

1/27/24

	ACTUAL 2022	ESTIMATED 2023	BUDGET 2024
BEGINNING FUND BALANCES	\$ 14,414,721	\$ 4,510,618	\$ 3,055,867
REVENUES			
Property taxes	312,086	764,763	1,005,222
Specific ownership taxes	18,471	32,000	40,209
Interest income	123,657	110,000	100,000
Transfers from Morgan Hill MD No. 1	1,985,569	223,834	332,538
Transfers from Morgan Hill MD No. 2	-	409,264	729,902
Bond issuance proceeds	3,061,378	1,888,621	-
Total revenues	<u>5,501,161</u>	<u>3,428,482</u>	<u>2,207,871</u>
Total funds available	<u>19,915,882</u>	<u>7,939,100</u>	<u>5,263,738</u>
EXPENDITURES			
General and administrative			
Accounting	26,811	9,000	-
Auditing	12,390	-	-
County Treasurer's fee	4,681	11,472	15,078
Insurance	2,177	-	-
Miscellaneous	7,326	-	-
Contingency	-	-	1,504
Letter of credit fees	12,654	50,000	20,000
Debt service			
Bond Interest Series 2021A	796,130	752,250	752,250
Bond Interest Series 2021B	95,372	349,369	372,938
Bond Interest Series 2021C	-	75,000	1,370,230
Bond Principal Series 2021C	-	628,142	-
Paying agent fees	7,000	8,000	8,000
Capital projects			
Capital outlay	14,440,723	3,000,000	-
Total expenditures	<u>15,405,264</u>	<u>4,883,233</u>	<u>2,540,000</u>
Total expenditures and transfers out requiring appropriation	<u>15,405,264</u>	<u>4,883,233</u>	<u>2,540,000</u>
ENDING FUND BALANCES	<u>\$ 4,510,618</u>	<u>\$ 3,055,867</u>	<u>\$ 2,723,738</u>
EMERGENCY RESERVE	\$ 73,200	\$ 46,200	\$ 66,300
DEBT SERVICE RESERVE FUND - 2021A	1,375,917	1,375,917	1,375,917
PUBLIC IMPROVEMENTS WARRANTY	-	898,395	898,395
AVAILABLE FOR OPERATIONS	3,061,501	735,355	383,126
TOTAL RESERVE	<u>\$ 4,510,618</u>	<u>\$ 3,055,867</u>	<u>\$ 2,723,738</u>

No assurance provided. See summary of significant assumptions.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
2024 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Services Provided

In accordance with its Service Plan, Morgan Hill Metropolitan District No. 3 (the “District”) was formed to provide for the planning, design, acquisition, construction, installation, redevelopment, maintenance and financing of the public improvements for a portion of the property known as “Morgan Hill,” which is located in Erie, Colorado. Such public improvements include, but are not limited to, streets, traffic and safety controls, water, storm and sanitary sewer, utilities and parks and recreation improvements.

The Service Plan, as amended in 2017, permits the District to impose a maximum mill levy on the taxable property within its boundaries as a primary source of revenue for the construction and maintenance of public improvements, repayment of debt and operational costs. The Service Plan also provides a combined total debt issuance limitation in an aggregate principal amount not to exceed \$35,000,000 for Morgan Hill Metropolitan District Nos. 1, 2 and 3.

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

The District prepares its budget on the modified accrual basis of accounting in accordance with the requirements of Colorado Revised Statutes C.R.S. 29-1-105 using its best estimates as of the date of the budget hearing. These estimates are based on expected conditions and its expected course of actions. The assumptions disclosed herein are those that the District believes are significant to the budget. There will usually be differences between the budget and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Revenues

Property Taxes

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For property tax collection year 2024, SB22-238 and SB23B-001 set the assessment rates and actual value reductions as follows:

Category	Rate	Category	Rate	Actual Value Reduction	Amount
Single-Family Residential	6.70%	Agricultural Land	26.40%	Single-Family Residential	\$55,000
Multi-Family Residential	6.70%	Renewable Energy Land	26.40%	Multi-Family Residential	\$55,000
Commercial	27.90%	Vacant Land	27.90%	Commercial	\$30,000
Industrial	27.90%	Personal Property	27.90%	Industrial	\$30,000
Lodging	27.90%	State Assessed	27.90%	Lodging	\$30,000
		Oil & Gas Production	87.50%		

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
2024 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Revenues – (continued)

Specific Ownership Taxes

Specific ownership taxes are set by the State and collected by the County Treasurer, primarily on vehicle licensing within the County as a whole. The specific ownership taxes are allocated by the County Treasurer to all taxing entities within the County. The budget assumes that the District's share will be equal to approximately 4% of the property taxes collected.

Intergovernmental Transfers

The District anticipates receiving funds from Morgan Hill Metropolitan District Nos. 1 and 2 to be used for payments on Bonds.

Interest Income

Interest earned on the District's available funds has been estimated based on an average interest rate of approximately 4%.

Expenditures

Debt Service

The District's anticipated debt service payments have been estimated based on the debt service to maturity requirements.

Debt and Leases

On November 10, 2021, the District issued the (i) Series 2021A, General Obligation Refunding and Improvement Bonds in the aggregate principal amount of \$20,030,000; and (ii) Series 2021B, Subordinate General Obligation Refunding and Improvements Bonds in the aggregate principal amount of \$5,850,000 for the purposes of (i) refunding all amounts on the District's Series 2018B Limited Tax Revenue Note Payable; (ii) funding a Project Fund for future capital improvements; (iii) funding a Reserve Fund for the 2021A Senior Bonds; (iv) funding a Capitalized Interest Fund for the 2021A Senior Bonds; and (v) paying costs of issuance in connection with the 2021A Senior Bonds and the 2021B Subordinate Bonds. Pursuant to the Pledge Agreement dated November 1, 2021, District Nos. 1 and 2 are to remit pledged revenues to the District for debt service payments on the 2021A Senior Bonds and 2021B Subordinate Bonds.

On December 9, 2021, the District issued the Series 2021C Junior Lien draw down facility in the maximum aggregate amount of \$5,000,000 for the purpose of funding remaining costs of public improvements. The 2021C junior lien bonds will be repaid from ad valorem revenue associated with oil and gas revenue and a pledge of oil and gas revenue from District Nos. 1 and 2.

The District has no leases.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
2024 BUDGET
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Reserves

Emergency Reserve

The District has provided for an emergency reserve fund equal to at least 3% of fiscal year spending as defined under TABOR.

Debt Service Reserve

The District maintains a Debt Service Reserve as required by the issuance of the 2021A Senior Bonds.

This information is an integral part of the accompanying budget.

EXHIBIT A
2022 Audits

MORGAN HILL METROPOLITAN DISTRICT NO. 1

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2022



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**MORGAN HILL METROPOLITAN DISTRICT NO. 1
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YEAR ENDED DECEMBER 31, 2022**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 1, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Morgan Hill Metropolitan District No. 1's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 1, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Morgan Hill Metropolitan District No. 1 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Morgan Hill Metropolitan District No. 1's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Morgan Hill Metropolitan District No. 1's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Board of Directors
Morgan Hill Metropolitan District No. 1

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

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

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

CliftonLarsonAllen LLP

Broomfield, Colorado
April 27, 2023

MORGAN HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Governmental Activities
ASSETS	
Cash and Investments	\$ 93,359
Due from Other Governments	724
Prepaid Items	17,559
Property Tax Receivable	306,041
Construction in Progress	51,223
Total Assets	468,906
LIABILITIES	
Current Liabilities Due in Less Than One Year:	
Accounts Payable	19,256
Total Liabilities	19,256
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	306,041
Total Deferred Inflows of Resources	306,041
NET POSITION	
Net Investment in Capital Assets	51,223
Restricted for TABOR	3,070
Unrestricted	89,316
Total Net Position	\$ 143,609

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Functions/Programs	Expenses	Program Revenue Charges for Services	Net Revenue (Expense) and Change in Net Position Governmental Activities
Governmental Activities:			
Public Works	\$ 102,334	\$ -	\$ (102,334)
General Government	2,069,259	-	(2,069,259)
	\$ 2,171,593	\$ -	(2,171,593)
General Revenues:			
			171,879
			10,173
			4,213
			6
			1,712,231
			1,898,502
			(273,091)
			416,700
			\$ 143,609

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
DECEMBER 31, 2022**

	General Fund
ASSETS	
Cash and Investments	\$ 93,359
Due from Other Governments	724
Prepaid Items	17,559
Property Tax Receivable	306,041
Total Assets	\$ 417,683
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 19,256
Total Liabilities	19,256
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	306,041
Total Deferred Inflows of Resources	306,041
FUND BALANCE	
Nonspendable for Prepaid Items	17,559
Restricted for TABOR	3,070
Unassigned	71,757
Total Fund Balance	92,386
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 417,683

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2022**

Total Fund Balance - Total Governmental Fund	\$ 92,386
--	-----------

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

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

Capital Assets, Not Being Depreciated	<u>51,223</u>
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Net Position of Governmental Activities	<u><u>\$ 143,609</u></u>
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See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2022**

	<u>General Fund</u>
REVENUES	
Property Taxes	\$ 171,879
Specific Ownership Taxes	10,173
Net Investment Income	4,213
Non-Related Party Reimbursement Income	6
Intergovernmental - Morgan Hill	
Metropolitan District No. 2	1,712,231
Total Revenues	<u>1,898,502</u>
EXPENDITURES	
Current:	
Treasurer Fees	2,581
Audit	12,075
Accounting	18,474
Insurance	2,901
Legal	17,013
Letter of Credit Fees	6,251
Miscellaneous	10,627
Intergovernmental - Morgan Hill	
Metropolitan Districts No. 2 and No. 3	1,999,337
Capital Outlay	99,115
Total Expenditures	<u>2,168,374</u>
NET CHANGE IN FUND BALANCE	(269,872)
Fund Balance - Beginning of Year	<u>362,258</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 92,386</u></u>

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Net Change in Fund Balance - Total Governmental Fund	\$ (269,872)
--	--------------

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

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

Capital Outlay	99,115
----------------	--------

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

	<u>(102,334)</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (273,091)</u></u>
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MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 DEFINITION OF REPORTING ENTITY

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

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

The District has no employees and all services are contracted.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity, including District No. 2, District No. 3, and the Town.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Construction in progress is shown as an increase in assets.

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

The District reports the following major governmental fund:

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

Budgets

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

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

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

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

Capital Assets

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

Fund Balance and Net Position

Net position is reported in the governmental activities and is classified as restricted, unrestricted, or net investment in capital assets. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. Net investment in capital assets includes the values of capital assets less any associated debt that remains outstanding. As of December 31, 2022, fund balances of governmental funds are classified as follows:

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

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

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

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

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance and Net Position (Continued)

Unassigned – represents the residual classification for the District’s General Fund and could report a surplus or deficit. In 2022, the General Fund reported an unassigned fund balance of \$71,757.

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, \$3,070 of the General Fund balance has been restricted.

Nonspendable fund balance of \$17,559 is equal to the amount of prepaid insurance for the District that will benefit a future period.

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

NOTE 3 CASH AND INVESTMENTS

Cash and investments reflected on the statement of net position as of December 31, 2022 consist of the following:

Cash Deposits	\$ 43,316
Investments	<u>50,043</u>
Total Cash and Investments	<u><u>\$ 93,359</u></u>

Cash Deposits

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

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

The District’s cash deposits were covered under PDPA and not subject to custodial credit risk. At December 31, 2022, the District's cash deposits had a carrying balance of \$43,316.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2022**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments

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

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

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

As of December 31, 2022, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust *	Less than One Year	\$ 50,043

As of December 31, 2022, the District had invested \$50,043 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 AAmmf by Fitch Ratings and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 4 CONSTRUCTION IN PROGRESS

An analysis of the changes in construction in progress for the year ended December 31, 2022 follows:

	Balance at January 1, 2022	Additions	Reductions	Balance at December 31, 2022
Construction in Progress	\$ 54,442	\$ 99,115	\$ 102,334	\$ 51,223

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

On December 20, 2019, Morgan Hill Metropolitan District No. 1 entered into a Relinquishment of Surface Rights Agreement with K.P. Kauffman Company, Inc. regarding specific oil and gas sites operated by KPK. The total consideration to be paid to KPK by the District for KPK's relinquishment, extinguishment or restriction of its Surface Rights in "Section 7", (Township 1 North, Range 68 West of the PM, County of Weld, state of Colorado) is \$50,000. At the initial closing on January 29, 2020, the District paid \$25,000 of the consideration as a partial payment. The remaining balance of \$25,000 was paid to KPK on April 2, 2020 upon completing the process of plugging the well. The \$50,000 paid to KPK for surface rights was recorded as an addition to Construction in Progress and will be reclassified to land upon completion of the real property transfer to the District. As of December 31, 2022, the balance remains in Construction in Progress.

During 2022, major conveyances to Town of Erie include public improvements associated with District 1 improvements in the total amount of \$102,334.

NOTE 5 RELATED PARTY

Three of the four members of the Board of Directors are employees and are associated with Bellock Construction Company, the Construction Manager and accountants for the District. In May 2022, the District elected a separate Board of Directors from District No. 2 and District No. 3.

Construction Management Agreement

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

Amounts paid to Bellock Construction Company during 2022 for construction and construction management were \$4,720 and \$29,271, respectively.

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 RELATED PARTY (CONTINUED)

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company on April 23, 2009. Under this agreement, accounting services are provided to District No. 1, No. 2, and No. 3 at the hourly rates of Bellock Construction Company employees. During 2022, the District incurred accounting services fees in the amount of \$18,474.

NOTE 6 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenses occurred during fiscal year ended December 31, 2022:

	<u>Morgan Hill Metropolitan District No. 1</u>	<u>Morgan Hill Metropolitan District No. 2</u>	<u>Morgan Hill Metropolitan District No. 3</u>	<u>Total Revenues</u>
Morgan Hill Metropolitan:				
District No. 1	\$ -	\$ 1,712,231	\$ -	\$ 1,712,231
District No. 2	13,768	-	-	13,768
District No. 3	1,985,569	-	-	1,985,569
Total Expenditures	<u>\$ 1,999,337</u>	<u>\$ 1,712,231</u>	<u>\$ -</u>	<u>\$ 3,711,568</u>

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

District Facilities Construction and Service Agreement

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

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

During 2021, District No. 3 entered into a Capital Pledge Agreement with District No. 1 and District No. 2 (the Pledged Districts). The Agreement is related to the issuance of the Series 2021A Senior Bonds and the Series 2021B Subordinate Bonds in District No. 3. The Pledged Districts agree to levy on all of the taxable property of the Pledge Districts, in addition to all other taxes, direct annual taxes in each of the years 2021 (for collection in 2022) to 2050 (for collection in 2051) to the extent necessary to provide for payment of the annual bond costs, in the amount of the required mill levy determined by District No. 3. Under the Agreement, the District pledged 27.187 mills, a total of \$83,949, collected in 2022. The District pledged 41.033 mills, a total of \$219,465, for collection in 2023.

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

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

District Facilities Construction and Service Agreement (Continued)

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

The Gallagher Amendment, first added to the Colorado Constitution in 1982, required a residential to non-residential property tax ratio of 45% to 55% and required the state legislature to adjust the residential assessment rate to maintain the required ratio. 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 District No. 2 and District No. 3 must pay the District the amount set forth in the annual budget. During fiscal year 2017, the Colorado legislature reduced the residential assessment ratio from 7.96% to 7.20% causing the property tax mill rate for general obligation bonds and service costs to increase from 50 mills to 55.275 mills. The residential assessment ratio decreased to 7.15% in 2019 causing the mills to increase to 55.663 for property taxes to be collected in 2020. During fiscal year 2020, the Gallagher Amendment was repealed. While the residential assessment rate is set in statute at 7.15%, the Colorado legislature approved a temporary reduction to 6.765% for the 2023 and 2024 tax years.

Warranty of Public Improvements

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

The amount of the Guarantee shall be 115% of the total estimated costs including labor and material of all the public improvements to be constructed per the agreement. As of the date of the agreement, June 28, 2018, the estimated cost of the improvements were \$1,617,815. As of December 31, 2022, the estimated cost to complete the remaining improvements is \$15,000 and the remaining balance of the letters of credit, including the 15% contingency are \$404,454.

MORGAN HILL METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 8 RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2022. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery, and workers' compensation coverage to its members. Settled claims have not exceeded this coverage during the past three years.

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

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

**MORGAN HILL METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL –
GENERAL FUND
YEAR ENDED DECEMBER 31, 2022**

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 171,878	\$ 171,879	\$ 171,879	\$ -
Specific Ownership Taxes	8,594	10,173	10,173	-
Net Investment Income	-	4,213	4,213	-
Non-Related Party Reimbursement Income	-	6	6	-
Intergovernmental - Morgan Hill				
Metropolitan District No. 2	-	1,712,231	1,712,231	-
Total Revenues	<u>180,472</u>	<u>1,898,502</u>	<u>1,898,502</u>	<u>-</u>
EXPENDITURES				
Current:				
Treasurer Fees	2,578	2,581	2,581	-
Audit	31,000	12,075	12,075	-
Accounting	45,000	18,474	18,474	-
Insurance	9,500	2,901	2,901	-
Legal	25,000	17,013	17,013	-
Letter of Credit Fees	34,751	6,251	6,251	-
Miscellaneous	11,060	10,628	10,627	1
Intergovernmental - Morgan Hill				
Metropolitan Districts No. 2 and No. 3	86,887	1,999,337	1,999,337	-
Capital Outlay	<u>150,000</u>	<u>99,114</u>	<u>99,115</u>	<u>(1)</u>
Total Expenditures	<u>395,776</u>	<u>2,168,374</u>	<u>2,168,374</u>	<u>-</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(215,304)	(269,872)	(269,872)	-
Fund Balance - Beginning of Year	<u>460,528</u>	<u>430,533</u>	<u>362,258</u>	<u>(68,275)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 245,224</u></u>	<u><u>\$ 160,661</u></u>	<u><u>\$ 92,386</u></u>	<u><u>\$ (68,275)</u></u>



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

MORGAN HILL METROPOLITAN DISTRICT NO. 2

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

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**MORGAN HILL METROPOLITAN DISTRICT NO. 2
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Morgan Hill Metropolitan District No. 2
Town of Erie, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 2, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Morgan Hill Metropolitan District No. 2's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 2, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Morgan Hill Metropolitan District No. 2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Morgan Hill Metropolitan District No. 2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Morgan Hill Metropolitan District No. 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Morgan Hill Metropolitan District No. 2's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Board of Directors
Morgan Hill Metropolitan District No. 2

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 opinions on the basic financial statements are not affected by this missing information.

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

CliftonLarsonAllen LLP

Broomfield, Colorado
March 29, 2023

MORGAN HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Governmental Activities
ASSETS	
Investments	\$ 36,251
Property Taxes Receivable	399,479
Due from Other Governments	967
Total Assets	436,697
 DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	399,479
Total Deferred Inflows of Resources	399,479
 NET POSITION	
Restricted for TABOR	1,090
Unrestricted	36,128
Total Net Position	\$ 37,218

See accompanying Notes to Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Functions/Programs	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Position Governmental Activities
GOVERNMENTAL ACTIVITIES			
General Government	\$ 1,731,745	\$ -	\$ (1,731,745)
	<u>\$ 1,731,745</u>	<u>\$ -</u>	<u>(1,731,745)</u>
GENERAL REVENUES			
			229,538
			13,585
			13,768
			22,758
			<u>279,649</u>
			CHANGE IN NET POSITION
			(1,452,096)
			Net Position - Beginning of Year
			<u>1,489,314</u>
			NET POSITION - END OF YEAR
			<u>\$ 37,218</u>

See accompanying Notes to Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2022**

	General Fund
ASSETS	
Investments	\$ 36,251
Property Tax Receivable	399,479
Due from Other Governments	967
Total Assets	\$ 436,697
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	\$ 399,479
Total Deferred Inflows of Resources	399,479
FUND BALANCE	
Restricted for TABOR	1,090
Unassigned	36,128
Total Fund Balance	37,218
Total Deferred Inflows of Resources and Fund Balance	\$ 436,697

See accompanying Notes to Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2022**

	General Fund
REVENUES	
Property Tax Income	\$ 229,538
Specific Ownership Taxes	13,585
Intergovernmental - Morgan Hill Metropolitan District No. 1	13,768
Net Investment Income	22,758
Total Revenues	279,649
EXPENDITURES	
Current:	
Audit	7,035
Accounting	6,305
Treasurer's Fee	3,443
Insurance	1,906
Miscellaneous	825
Intergovernmental Payment to District No. 1	1,712,231
Total Expenditures	1,731,745
NET CHANGES IN FUND BALANCE	(1,452,096)
Fund Balance - Beginning of Year	1,489,314
FUND BALANCE - END OF YEAR	\$ 37,218

See accompanying Notes to Financial Statements.

MORGAN HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 DEFINITION OF REPORTING ENTITY

Morgan Hill Metropolitan District No. 2 (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), and Morgan Hill Metropolitan District No. 3 (District No. 3) 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. 3 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. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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.

MORGAN HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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, 2022, 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. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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, \$1,090 of the General Fund balance has been restricted.

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 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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 INVESTMENTS (CONTINUED)

As of December 31, 2022, 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>\$ 36,251</u>

As of December 31, 2022, the District had invested \$36,251 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 AAmmf by Fitch Ratings and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

NOTE 4 RELATED PARTY

All of the members of the Board of Directors are employees and are associated with Bellock Construction Company, the Construction Manager and accountants for the District. During 2022, District No. 1, District No. 3, and the District had the same Board of Directors.

Construction Management Agreement

A construction management agreement was entered into during 2009 between District No. 2 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.

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 2022, the District incurred \$6,305 in accounting services fees.

NOTE 5 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. 3. The agreement shall remain in full force and effect until such time as each of the terms and conditions has been performed in their entirety or until the agreement is terminated by mutual written agreement of the Districts.

MORGAN HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT (SERVICE CONTRACT) AND OTHER AGREEMENTS (CONTINUED)

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

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. The Gallagher Amendment, first added to the Colorado Constitution in 1982, required a residential to non-residential property tax ratio of 45% to 55% and required the state legislature to adjust the residential assessment rate to maintain the required ratio. 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. While the residential assessment rate is set in statute at 7.15%, the Colorado legislature approved a temporary reduction to 6.765% for the 2023 and 2024 tax years.

During 2021, District No. 3 entered into a Capital Pledge Agreement with District No. 1 and District No. 2 (the Pledged Districts). The Agreement is related to the issuance of the Series 2021A Senior Bonds and the Series 2021B Subordinate Bonds in District No. 3. The Pledged Districts agree to levy on all of the taxable property of the Pledge Districts, in addition to all other taxes, direct annual taxes in each of the years 2021 (for collection in 2022) to 2050 (for collection in 2051) to the extent necessary to provide for payment of the annual bond costs, in the amount of the required mill levy determined by District No. 3. Under the Agreement, the District pledged 55.663 mills, a total of \$229,538, collected in 2022. The District pledged 57.220 mills, a total of \$399,479, for collection in 2023.

The District, District No. 1, and District No. 3 also entered into a Junior Lien Pledge Agreement related to the issuance of the Series 2021C Junior Lien Bond in District No. 3. Under the agreement, the District and District No. 1 pledge their Junior Lien Required Mill levy upon all taxable property within their boundaries. After withholding the O&M carve-out, the District pledges its share of bond repayment costs. The O&M carve-out was \$90,000 in 2022 and will be equal to \$90,900 in 2023, with the amount increasing by 1% annually thereafter.

NOTE 6 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.

MORGAN HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 6 RISK MANAGEMENT (CONTINUED)

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2022. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded insurance coverage in the past three years.

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

NOTE 7 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.

MORGAN HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 8 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenditures occurred during fiscal year ended December 31, 2022:

	<u>Morgan Hill Metropolitan District No. 1</u>	<u>Morgan Hill Metropolitan District No. 2</u>	<u>Morgan Hill Metropolitan District No. 3</u>	<u>Total Revenues</u>
Morgan Hill Metropolitan:				
District No. 1	\$ -	\$ 1,712,231	\$ -	\$ 1,712,231
District No. 2	13,768	-	-	13,768
District No. 3	1,985,569	-	-	1,985,569
Total Expenditures	<u>\$ 1,999,337</u>	<u>\$ 1,712,231</u>	<u>\$ -</u>	<u>\$ 3,711,568</u>

REQUIRED SUPPLEMENTARY INFORMATION

MORGAN HILL METROPOLITAN DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2022

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 229,538	\$ 229,538	\$ 229,538	\$ -
Specific Ownership Taxes	11,477	11,477	13,585	2,108
Intergovernmental - Morgan Hill Metropolitan District No. 1	-	14,232	13,768	(464)
Net Investment Income	-	13,252	22,758	9,506
Total Revenues	<u>241,015</u>	<u>268,499</u>	<u>279,649</u>	<u>11,150</u>
EXPENDITURES				
Current:				
Audit	-	7,035	7,035	-
Accounting	-	6,500	6,305	195
Treasurer's Fee	3,443	3,443	3,443	-
Insurance	-	2,000	1,906	94
Miscellaneous	-	1,000	825	175
Intergovernmental - Morgan Hill District No. 1	-	1,474,197	1,712,231	(238,034)
Intergovernmental - Morgan Hill District No. 3	1,637,571	237,571	-	237,571
Total Expenditures	<u>1,641,014</u>	<u>1,731,746</u>	<u>1,731,745</u>	<u>1</u>
EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES	(1,399,999)	(1,463,247)	(1,452,096)	11,151
Fund Balances - Beginning of Year	<u>1,484,533</u>	<u>1,484,092</u>	<u>1,489,314</u>	<u>5,222</u>
FUND BALANCE - END OF YEAR	<u>\$ 84,534</u>	<u>\$ 20,845</u>	<u>\$ 37,218</u>	<u>\$ 16,373</u>



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MORGAN HILL METROPOLITAN DISTRICT NO. 3

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2022



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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 3, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Morgan Hill Metropolitan District No. 3's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Morgan Hill Metropolitan District No. 3, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Morgan Hill Metropolitan District No. 3 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Morgan Hill Metropolitan District No. 3's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Morgan Hill Metropolitan District No. 3's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Morgan Hill Metropolitan District No. 3's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 opinions on the basic financial statements are not affected by this missing information.



CliftonLarsonAllen LLP

Broomfield, Colorado
April 18, 2023

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF NET POSITION
DECEMBER 31, 2022**

	Governmental Activities
ASSETS	
Cash and Investments	\$ 1,126,926
Restricted Cash and Investments	3,792,058
Property Taxes Receivable	766,113
Due from Other Governments	1,314
Construction in Progress	2,221,187
Total Assets	7,907,598
LIABILITIES	
Accounts Payable	302,101
Retention Payable	107,579
Accrued Interest	62,688
Noncurrent Liabilities:	
Due in More Than One Year:	
Series 2021A Limited Tax General Obligation Bonds	20,030,000
Series 2021A Limited Tax General Obligation Bonds Premium	225,049
Series 2021B Limited Tax General Obligation Bonds	5,850,000
Series 2021C Junior Lien General Obligation Limited Tax Bonds	3,111,379
Accrued Interest	369,283
Total Liabilities	30,058,079
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	766,113
Total Deferred Inflows of Resources	766,113
NET POSITION	
Restricted for TABOR	4,264
Unrestricted	(22,920,858)
Total Net Position	\$ (22,916,594)

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Functions/Programs	Expenses	Program Revenue Charges for Services	Net Revenue (Expense) and Change in Net Position Governmental Activities
GOVERNMENTAL ACTIVITIES			
General Government	\$ 66,039	\$ -	\$ (66,039)
Public Works	18,619,481	-	(18,619,481)
Interest and Related Costs on Long-Term Debt	1,160,614	-	(1,160,614)
	\$ 19,846,134	\$ -	(19,846,134)
GENERAL REVENUES			
			312,086
			18,471
			1,985,569
			123,657
			2,439,783
CHANGE IN NET POSITION			(17,406,351)
			(5,510,243)
NET POSITION - END OF YEAR			\$ (22,916,594)

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2022**

	General Fund
ASSETS	
Cash and Investments	\$ 1,126,926
Restricted Cash and Investments	3,792,058
Property Tax Receivable	766,113
Due from Other Governments	1,314
Total Assets	\$ 5,686,411
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 302,101
Retention Payable	107,579
Total Liabilities	409,680
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	766,113
Total Deferred Inflows of Resources	766,113
FUND BALANCE	
Restricted for:	
TABOR	4,264
Debt Service	2,893,663
Capital Projects	501,375
Unassigned	1,111,316
Total Fund Balance	4,510,618
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 5,686,411

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2022**

Total Fund Balance - Total Governmental Fund \$ 4,510,618

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 2,221,187

Accrued interest payable is recognized for governmental activities, therefore, is not reported as a liability in the governmental fund. (431,971)

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

Series 2021A Limited Tax General Obligation Bonds	(20,030,000)
Series 2021A Limited Tax General Obligation Bonds Premium	(225,049)
Series 2021B Limited Tax General Obligation Bonds	(5,850,000)
Series 2021C Junior Lien General Obligation Limited Tax Bonds	(3,111,379)
	(29,216,428)

Net Position of Governmental Activities \$ (22,916,594)

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2022**

	<u>General Fund</u>
REVENUES	
Property Tax Income	\$ 312,086
Specific Ownership Taxes	18,471
Intergovernmental - Morgan Hill Metropolitan District No. 1	1,985,569
Net Investment Income	123,657
Total Revenues	<u>2,439,783</u>
EXPENDITURES	
Current:	
Audit	12,390
Accounting	26,811
Treasurer's Fee	4,681
Insurance	2,177
Letter of Credit	12,654
Miscellaneous	7,326
Debt Service:	
Interest and Fiscal Charges	891,502
Loan Origination Fees	7,000
Capital Outlay	14,440,723
Total Expenditures	<u>15,405,264</u>
DEFICIENCY OF REVENUE UNDER EXPENDITURES	(12,965,481)
OTHER FINANCING SOURCES	
Proceeds from Debt Issuance	3,061,378
Total Other Financing Sources	<u>3,061,378</u>
NET CHANGES IN FUND BALANCE	(9,904,103)
Fund Balance - Beginning of Year	<u>14,414,721</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 4,510,618</u></u>

See accompanying Notes to Basic Financial Statements.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Net Change in Fund Balance - Total Governmental Fund \$ (9,904,103)

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

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

Capital Outlay 14,440,723

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

Proceeds from Debt Issuance (3,061,378)

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

Accrued Interest (273,386)

The premium on the issuance of bonds is amortized over the life of the bonds. Current year amortization of the premium on bonds of \$11,274 is reported as a reduction of interest expense on the statement of activities.

11,274

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

(18,619,481)

Change in Net Position of Governmental Activities

\$ (17,406,351)

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 DEFINITION OF REPORTING ENTITY

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

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

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

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

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

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

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, 2022

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.

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, 2022, 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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance and Net Position (Continued)

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.

Restricted Fund Balance

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the state of Colorado. In compliance with this requirement, \$4,264 of the General Fund balance has been restricted.

The District has a balance of \$898,395 in cash held in escrow, which is considered restricted fund balance for capital projects reduced by the amount of accounts payable that is related to capital projects and retention payable for a total restricted balance of \$501,375.

The District has \$2,893,663 which is considered restricted fund balance for debt service.

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, 2022 consist of the following:

Cash Deposits	\$ 1,115,620
Restricted Cash Held in Escrow	898,395
Investments	11,306
Restricted Investments	2,893,663
Total Cash	\$ 4,918,984

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.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Cash Deposits (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, 2022, the District's cash deposits had a carrying balance of \$2,014,015.

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, 2022, 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	\$ 11,306
Money Market Fund - CSAFE *	Less than One Year	2,893,663
		<u>\$ 2,904,969</u>

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

As of December 31, 2022, the District had \$11,306 invested in the Colorado Surplus Asset Fund Trust, an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAmmf by Fitch Ratings and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

As of December 31, 2022, the District had \$2,893,663 invested in CSAFE Money Market Funds. The investment is rated AAmmf by Fitch Ratings and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

NOTE 4 LONG-TERM OBLIGATIONS

The District's long-term obligations consist of the following for the year ended December 31, 2022:

	Balance at January 1, 2022	Additions	Reductions	Balance at December 31, 2022	Due Within One Year
Limited Tax General Obligation Bonds - Series 2021A	\$ 20,030,000	\$ -	\$ -	\$ 20,030,000	\$ -
Limited Tax General Obligation Bonds - Series 2021A Premium	236,323	-	11,274	225,049	-
Limited Tax General Obligation Bonds - Series 2021B	5,850,000	-	-	5,850,000	-
Junior Lien General Obligation Limited Tax Bond - Series 2021C	50,001	3,061,378	-	3,111,379	-
Accrued Interest - Series 2021B	51,797	392,944	95,372	349,369	-
Accrued Interest - Series 2021C	219	19,695	-	19,914	-
Total Long-Term Obligations	<u>\$ 26,218,340</u>	<u>\$ 3,474,017</u>	<u>\$ 106,646</u>	<u>\$ 29,585,711</u>	<u>\$ -</u>

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

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

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

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

The Series 2021A Senior Bonds bear a coupon interest rate of 3% to 4% per annum, which is payable semi-annually on June 1 and December 1, commencing on June 1, 2022. The Series 2021A Senior Bonds will mature on December 1, 2051, subject to both mandatory sinking fund redemption and 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 District made \$796,130 of interest payments in 2022, and incurred \$752,249 of interest expense on the 2021A Bonds during the year ended December 31, 2022.

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. The Subordinate Pledged Revenue consists of revenue derived from the capital pledge agreement, subordinate property tax revenues, subordinate specific ownership tax revenues, and other available moneys, all after the application of such amounts due on the Series 2021A Senior Bonds. The Series 2021B Subordinate Bonds are structured as “cash flow” bonds. There are no scheduled payments of principal of the Series 2021B Subordinate Bonds prior to their maturity date, but rather the Subordinate Bonds are subject to mandatory redemption on each December 15 prior to maturity from and to the extent of any available Subordinate Pledged Revenue. The Series 2021B Subordinate Bonds will be deemed paid in full and discharged on December 15, 2051, regardless of the amount of principal and interest paid on the Series 2021B Subordinate Bonds prior to such date. The District made \$95,372 of interest payments in 2022, and incurred \$392,944 of interest expense on the 2021B Bonds during the year ended December 31, 2022.

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

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

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

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ -	\$ 752,250	\$ 752,250
2024	-	752,250	752,250
2025	20,000	752,250	772,250
2026	220,000	751,650	971,650
2027	285,000	745,050	1,030,050
2028-2032	1,865,000	3,578,850	5,443,850
2033-2037	2,630,000	3,220,025	5,850,025
2038-2042	3,640,000	2,692,225	6,332,225
2043-2047	4,900,000	1,905,400	6,805,400
2048-2051	6,470,000	742,800	7,212,800
Total	<u>\$ 20,030,000</u>	<u>\$ 15,892,750</u>	<u>\$ 35,922,750</u>

PRIVATE PLACEMENT LONG-TERM OBLIGATIONS

Series 2021C Junior Lien General Obligation Limited Tax Bond

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

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

The District incurred \$19,695 of interest expense on the 2021C Bond during the year ended December 31, 2022.

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, 2022, the District had remaining authorized but unissued indebtedness of \$240,008,621.

**MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 CONSTRUCTION IN PROGRESS

An analysis of the changes in construction in progress for the year ended December 31, 2022 follows:

	Balance at January 1, 2022	Additions	Reductions	Balance at December 31, 2022
Construction in Progress	\$ 6,399,945	\$ 14,440,723	\$ 18,619,481	\$ 2,221,187

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

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

During 2022, major conveyances to Town of Erie included public improvement warranty costs associated with Filing 2 in the total amount of \$18,619,481.

NOTE 6 RELATED PARTY

All of the members of the Board of Directors are employees and are associated with Bellock Construction Company, the Construction Manager and accountants for the District, and CDG Morgan Hill, the Developer within the District. In May 2022, District No. 1 elected a separate Board of Directors from District No. 2 and the District.

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 2022 for construction and construction management was \$429,778.

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 6 RELATED PARTY (CONTINUED)

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company on April 23, 2009. Under this agreement, accounting services are provided to District No. 1, No. 2, and No. 3 at the hourly annual rates of Bellock Construction Company employees. During 2022, the District incurred \$26,811 in accounting services fees.

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

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

District No. 1 is to construct the facilities benefiting the three Districts and transfer them to the Town of Erie or 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, 2022

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

The Gallagher Amendment, first added to the Colorado Constitution in 1982, required a residential to non-residential property tax ratio of 45% to 55% and required the state legislature to adjust the residential assessment rate to maintain the required ratio. 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. While the residential assessment rate is set in statute at 7.15%, the Colorado legislature approved a temporary reduction to 6.765% for the 2023 and 2024 tax years.

Warranty of Public Improvements

In 2020, CDG Morgan Hill, Inc. entered into a Development Agreement with the Town of Erie. As part of the agreement, CDG Morgan Hill, Inc. on behalf of the District, was required to enter into an Improvement Guarantee (Guarantee) for a period of time sufficient to cover the completion of the public improvements. If CDG Morgan Hill, Inc. is unable to complete the improvements then the Town of Erie has the right to call upon the Guarantee. The Guarantee could be in the form of cash, certified check, or a letter of credit.

On November 5, 2020 CDG Morgan Hill Inc., and the District entered into the agreement for the Filing 2 Improvements. At the date of the agreement the estimated cost to complete and balance of the letter of credit was \$6,031,442. As of December 31, 2022, the estimated cost to complete the remaining improvements is \$3,200,000 and the remaining balance of the letter of credit is \$6,063,176.

NOTE 8 RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2022. 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, 2022

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, 2022:

	Morgan Hill Metropolitan District No. 1	Morgan Hill Metropolitan District No. 2	Morgan Hill Metropolitan District No. 3	Total Revenues
Morgan Hill Metropolitan:				
District No. 1	\$ -	\$ 1,712,231	\$ -	\$ 1,712,231
District No. 2	13,768	-	-	13,768
District No. 3	1,985,569	-	-	1,985,569
Total Expenditures	<u>\$ 1,999,337</u>	<u>\$ 1,712,231</u>	<u>\$ -</u>	<u>\$ 3,711,568</u>

MORGAN HILL METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

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, 2022 of \$22,916,594. 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, 2022**

	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 312,085	\$ 312,086	\$ 1
Specific Ownership Taxes	15,604	18,471	2,867
Intergovernmental - Morgan Hill			
Metropolitan District No. 1	86,887	1,985,569	1,898,682
Metropolitan District No. 2	1,637,571	-	(1,637,571)
Net Investment Income	-	123,657	123,657
Total Revenues	<u>2,052,147</u>	<u>2,439,783</u>	<u>387,636</u>
EXPENDITURES			
Current:			
Audit	-	12,390	(12,390)
Accounting	-	26,811	(26,811)
Treasurer's Fee	4,681	4,681	-
Insurance	-	2,177	(2,177)
Letter of Credit	-	12,654	(12,654)
Miscellaneous	-	7,326	(7,326)
Capital Outlay	14,254,845	14,440,723	(185,878)
Debt Service:			
Interest	1,453,286	891,502	561,784
Loan Origination Fees	-	7,000	(7,000)
Total Expenditures	<u>15,712,812</u>	<u>15,405,264</u>	<u>307,548</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(13,660,665)	(12,965,481)	695,184
OTHER FINANCING SOURCES			
Proceeds from Debt Issuance	4,000,000	3,061,378	(938,622)
Total Other Financing Sources	<u>4,000,000</u>	<u>3,061,378</u>	<u>(938,622)</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(9,660,665)	(9,904,103)	(243,438)
Fund Balances - Beginning of Year	<u>14,782,287</u>	<u>14,414,721</u>	<u>(367,566)</u>
FUND BALANCE - END OF YEAR	<u>\$ 5,121,622</u>	<u>\$ 4,510,618</u>	<u>\$ (611,004)</u>



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