

Spring Valley Metropolitan District No. 1

Financial Statements

Year Ended December 31, 2021

with

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

May 12, 2022

To the Board of Directors
Spring Valley Metropolitan District No. 1

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Spring Valley Metropolitan District No. 1 (the "District"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Spring Valley Metropolitan District No. 1, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Spring Valley 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.

Responsibility 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 Spring Valley 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.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

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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 Spring Valley 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 Spring Valley 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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spring Valley Metropolitan District No. 1's basic financial statements. The budgetary comparison schedules for the capital projects fund and the proprietary fund are presented for purposes of additional

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analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Beckstead & Co., LLC

Spring Valley Metropolitan District No. 1

STATEMENT OF NET POSITION

December 31, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and investments	\$ 4,958,991	\$ 895,634	\$ 5,854,625
Accounts receivable - customer	-	58,955	58,955
Prepaid expenses	-	450	450
Due from Districts No's 2-6	13,763	-	13,763
Total Current Assets	4,972,754	955,039	5,927,793
CAPITAL ASSETS			
Total Assets	16,501,803	10,403,975	26,905,778
	21,474,557	11,359,014	32,833,571
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	-	200,158	200,158
Retainage payable	747,046	-	747,046
Developer advances payable - accrued interest	1,448,568	-	1,448,568
Developer advances payable - capital	6,533,186	-	6,533,186
Total Current Liabilities	8,728,800	200,158	8,928,958
NET POSITION			
Net investment in capital assets	9,968,617	10,403,975	20,372,592
Restricted for:			
Emergency reserve	5,110	-	5,110
Capital projects	3,935,530	-	3,935,530
Unrestricted	(1,163,500)	754,881	(408,619)
Total Net Position	\$ 12,745,757	\$ 11,158,856	\$ 23,904,613

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

Spring Valley Metropolitan District No. 1

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:						
Governmental Activities:						
General government	\$ 278,994	\$ -	\$ 1,665,208	\$ 1,386,214	\$ -	\$ 1,386,214
Interest and related costs on long-term debt	99,920	-	-	(99,920)	-	(99,920)
Total Governmental Activities	378,914	-	1,665,208	1,286,294	-	1,286,294
Business-type Activities:						
Water - operations	272,251	566,239	-	-	293,988	293,988
Sewer - operations	348,012	311,108	-	-	(36,904)	(36,904)
Water - depreciation	170,782	-	-	-	(170,782)	(170,782)
Sewer - depreciation	101,348	-	-	-	(101,348)	(101,348)
Total Business-type Activities	892,393	877,347	-	-	(15,046)	(15,046)
Total	\$ 1,271,307	\$ 877,347	\$ 1,665,208	1,286,294	(15,046)	1,271,248
General Revenues:						
Transfer from District No. 2				913,096	-	913,096
Transfer from District No. 3				1,989,748	-	1,989,748
Transfer from District No. 4				10,660,859	-	10,660,859
Capital assets transfer				(5,124,448)	5,124,448	-
Interest income				-	508	508
Total General Revenues				8,439,255	5,124,956	13,564,211
Change in Net Position				9,725,549	5,109,910	14,835,459
Net Position - Beginning				3,020,208	6,048,946	9,069,154
Net Position - Ending				\$ 12,745,757	\$ 11,158,856	\$ 23,904,613

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

Spring Valley Metropolitan District No. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2021

	General	Road Maintenance Fund	Capital Projects	Total Governmental Funds
ASSETS				
Due from Districts No's 2-6	\$ 13,763	\$ -	\$ -	\$ 13,763
Cash	276,415	-	4,682,576	4,958,991
Total Assets	<u>\$ 290,178</u>	<u>\$ -</u>	<u>\$ 4,682,576</u>	<u>\$ 4,972,754</u>
LIABILITIES				
Retainage payable	\$ -	\$ -	\$ 747,046	\$ 747,046
Total Liabilities	-	-	747,046	747,046
FUND BALANCES:				
Restricted:				
Emergencies	5,110	-	-	5,110
Capital projects	-	-	3,935,530	3,935,530
Unassigned	285,068	-	-	285,068
Total Fund Balance	<u>290,178</u>	<u>-</u>	<u>3,935,530</u>	<u>4,225,708</u>
Total Liabilities and Fund Balances	<u>\$ 290,178</u>	<u>\$ -</u>	<u>\$ 4,682,576</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 16,501,803

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

Developer advances principal payable (6,533,186)
Developer advances interest payable (1,448,568)

Net Position of Governmental Activities \$ 12,745,757

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

Spring Valley Metropolitan District No. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2021

	General	Road Maintenance Fund	Capital Projects	Total
REVENUES				
Transfer from District No. 2	\$ 116,402	\$ -	\$ 796,694	\$ 913,096
Transfer from District No. 3	8,601	-	1,981,147	1,989,748
Transfer from District No. 4	54	-	10,660,805	10,660,859
Road impact contribution and other	-	-	1,665,208	1,665,208
Total Revenues	<u>125,057</u>	<u>-</u>	<u>15,103,854</u>	<u>15,228,911</u>
EXPENDITURES				
Current Operating				
Accounting and audit	58,988	-	-	58,988
District management	42,410	-	-	42,410
Engineering	-	3,169	-	3,169
Legal	63,402	-	-	63,402
Miscellaneous	2,775	-	-	2,775
Repairs and maintenance	2,765	4,023	-	6,788
Capital outlay	-	-	16,618,324	16,618,324
Total Expenditures	<u>170,340</u>	<u>7,192</u>	<u>16,618,324</u>	<u>16,795,856</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(45,283)	(7,192)	(1,514,470)	(1,566,945)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	7,192	-	7,192
Transfers out	(7,192)	-	-	(7,192)
Developer advance	-	-	5,450,000	5,450,000
Total Other Financing Sources (Uses)	<u>(7,192)</u>	<u>7,192</u>	<u>5,450,000</u>	<u>5,450,000</u>
NET CHANGE IN FUND BALANCES				
	(52,475)	-	3,935,530	3,883,055
FUND BALANCE, BEGINNING OF YEAR				
	342,653	-	-	342,653
FUND BALANCE, END OF YEAR				
	<u>\$ 290,178</u>	<u>\$ -</u>	<u>\$ 3,935,530</u>	<u>\$ 4,225,708</u>

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

Spring Valley Metropolitan District No. 1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended December 31, 2021

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

Net change in fund balances - Total governmental funds	\$	3,883,055
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Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful lives of the asset. Therefore, this is the amount of capital outlay, net of depreciation, in the current period.

Depreciation expense	(101,462)
Capital outlay	16,618,324
Capital assets transferred from governmental activities to the proprietary fund	(5,124,448)

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

Developer advances	(5,450,000)
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Accrued interest on developer advances payable	<u>(99,920)</u>
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Change in Net Position of Governmental Activities	<u>\$</u>	<u>9,725,549</u>
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The accompanying notes are an integral part of these financial statements.

Spring Valley Metropolitan District No. 1

Statement of Net Position
 Proprietary Fund
 December 31, 2021

ASSETS

CURRENT ASSETS

Cash and investments	\$ 895,634
Accounts receivable - customer	58,955
Prepaid expenses	<u>450</u>
Total Current Assets	955,039

CAPITAL ASSETS

Total Assets	<u>10,403,975</u>
	<u>\$ 11,359,014</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 200,158
Total Current Liabilities	<u>200,158</u>

Total Liabilities	200,158
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NET POSITION

Net investment in capital assets	10,403,975
Unrestricted	<u>754,881</u>
Total Net Position	11,158,856

Total Liabilities and Net Position	<u><u>\$ 11,359,014</u></u>
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The accompanying notes are an integral part of these financial statements.

Spring Valley Metropolitan District No. 1

Statement of Revenues, Expenses, and Changes in Net Position
 Proprietary Fund
 For the year ended December 31, 2021

OPERATING REVENUES

Water service charges	\$ 452,054
Sewer service charges	301,326
Hydrant water usage fees	91,338
Transfer fees	9,600
Meter fees	13,065
Penalty fees - water and sewer	6,480
Miscellaneous income	3,484
Total Operating Revenues	<u>877,347</u>

OPERATING EXPENSES

Accounting	14,047
Bank fees	4,211
Chemicals and testing	30,521
Depreciation and amortization	272,130
Engineering	5,185
Facility maintenance and repairs	75,924
Insurance	42,455
Jetting	17,979
Legal	2,193
Management	39,554
Meter installation	8,276
Miscellaneous	3,411
Sludge hauling	57,783
Utilities	190,430
Water and sewer operations	128,294
Total Operating Expenses	<u>892,393</u>

INCOME (LOSS) FROM OPERATIONS (15,046)

NONOPERATING REVENUES

Interest income	508
Transfer in of capital assets	5,124,448
Total Nonoperating Revenues	<u>5,124,956</u>

NET INCOME (LOSS) - CHANGE IN NET POSITION 5,109,910

NET POSITION - BEGINNING OF YEAR	6,048,946
NET POSITION - END OF YEAR	<u><u>\$ 11,158,856</u></u>

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

Spring Valley Metropolitan District No. 1

STATEMENT OF CASH FLOWS PROPRIETARY FUND

For the year ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 882,922
Payments to suppliers	(663,512)
Net Cash Provided (Used) by Operating Activities	219,410

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Payments related to acquisition of capital assets	(207,531)
Net Cash Provided (Required) by Capital and Related Financing Activities	(207,531)

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment income	508
Net Cash Provided (Used) by Investing Activities	508

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,387
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	883,247
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 895,634

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net income (loss) from operations	\$ (15,046)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Depreciation	272,130
Changes in Assets and Liabilities:	
Accounts receivable	5,575
Prepaid expenses	20,581
Accounts payable, net of capital activities	(63,830)
Net Adjustments	234,456
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 219,410

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Accounts payable incurred for capital additions	\$ -
Capital assets transferred from governmental activities	5,124,448

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

Spring Valley Metropolitan District No. 1

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund

For the year ended December 31, 2021

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Transfer from District No. 2	\$ 116,402	\$ 116,402	\$ -
Transfer from District No. 3	8,601	8,601	-
Transfer from District No. 4	54	54	-
Total Revenues	<u>125,057</u>	<u>125,057</u>	-
EXPENDITURES			
Current Operating			
Accounting and audit	64,000	58,988	5,012
Bank fees	500	-	500
District management	45,000	42,410	2,590
Legal	75,000	63,402	11,598
Miscellaneous	1,000	2,775	(1,775)
Repairs and maintenance	-	2,765	(2,765)
Contingency	105,000	-	105,000
Total Expenditures	<u>290,500</u>	<u>170,340</u>	<u>120,160</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(165,443)	(45,283)	120,160
OTHER FINANCING SOURCES (USES)			
Transfers out	-	(7,192)	(7,192)
Total Other Financial Sources (Uses)	<u>-</u>	<u>(7,192)</u>	<u>(7,192)</u>
NET CHANGE IN FUND BALANCE	(165,443)	(52,475)	112,968
FUND BALANCE, BEGINNING OF YEAR	<u>308,140</u>	<u>342,653</u>	<u>34,513</u>
FUND BALANCE, END OF YEAR	<u>\$ 142,697</u>	<u>\$ 290,178</u>	<u>\$ 147,481</u>

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

Spring Valley Metropolitan District No. 1

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 Road Maintenance Fund
 For the year ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Road maintenance fees	\$ -	\$ 62,500	\$ -	\$ (62,500)
Total Revenues	-	62,500	-	(62,500)
EXPENDITURES				
Current Operating				
Engineering	-	-	3,169	(3,169)
Snow plowing	-	6,000	4,023	1,977
Contingency	-	25,000	-	25,000
Total Expenditures	-	31,000	7,192	23,808
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	31,500	(7,192)	(38,692)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	7,192	7,192
Total Other Financial Sources (Uses)	-	-	7,192	7,192
NET CHANGE IN FUND BALANCE				
	-	31,500	-	(31,500)
FUND BALANCE, BEGINNING OF YEAR				
	-	-	-	-
FUND BALANCE, END OF YEAR				
	\$ -	\$ 31,500	\$ -	\$ (31,500)

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Spring Valley Metropolitan District No. 1 (“District” or “District No. 1”), located in Elbert County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized in coordination with Spring Valley Metropolitan District No. 2 (“District No. 2”), Spring Valley Metropolitan District No. 3 (“District No. 3”), Spring Valley Metropolitan District No. 4 (“District No. 4”), Spring Valley Metropolitan District No. 5 (“District No. 5”), and Spring Valley Metropolitan District No. 6 (“District No. 6”). The District was established to provide for the design, acquisition, construction, installation and financing of water and sewer facilities, including storm drainage, street improvements, safety protection, park and recreation, transportation, television relay and translation, mosquito control and limited fire protection services. The District is governed by an elected Board of Directors.

District No. 1 is to provide management for all administrative and operations functions as well as construction or acquisition of infrastructure for all of the Districts. District Nos. 2, 3, 4, 5, and 6 (“Financing Districts”) are responsible to provide funding for the construction and financing of certain facilities benefiting their respective districts. The water, sewer, and parks and recreation facilities will be retained by District No. 1 for ownership and operation. All other assets constructed are anticipated to be conveyed to other governmental entities for ownership and maintenance responsibilities. The Financing Districts will impose an operations and maintenance mill levy to assist the District in the costs of operations of the assets.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

Basis of Presentation

The accompanying financial statements are presented per GASB No. 34.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. For the most part, the effect of interfund activity has been removed from these statements.

The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred 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 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are transfers from Districts No. 2, No. 3, and No. 4. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Road Maintenance Fund – The Road Maintenance Fund is used to account for fees charged prior to the issuance of building permits for residential units in District Nos. 2, 4, 5, and 6 and the expenditure of those fees for repair and replacement of road improvements as prescribed in the enabling legislation adopted by the District’s board of directors.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

The District reports the following major proprietary funds:

Proprietary Fund - The Water and Sewer Fund accounts for the activities associated with providing water and sewer services to the citizens of the District.

The Proprietary Fund accounts for the operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund’s ongoing operations. Operating revenues consist of charges to customers for services provided. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions. The District’s proprietary fund consists of the Water and Sewer Fund.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. 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 appropriation is at the total fund expenditures level and lapses at year end.

For 2021, the District amended its total appropriations in the Capital Projects Fund from \$15,155,000 to \$23,235,469 and in the Road Maintenance Fund from \$0 to \$31,000.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers cash deposits with a maturity of three months or less to be cash equivalents.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2021, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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

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Notes to Financial Statements December 31, 2021

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated.

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Notes to Financial Statements December 31, 2021

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Roads	20 years
Utilities	20 years
Treatment plant	40 years
Storm sewer	15 years
Water and sewer lines	40 years

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 taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

The District has a limited amount of assessed valuation and therefore has not certified a mill levy.

Long-Term Obligations

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Where applicable, bonds payable are reported net of any bond premium or discount.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

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Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$5,110 of the General Fund balance has been restricted in compliance with this requirement.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, except for construction in progress and easements and ROW assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

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Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

As of December 31, 2021, cash and investments are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	<u>\$ 5,854,625</u>

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

Deposits with financial institutions	\$ 163,257
Investments - COLOTRUST	<u>5,691,368</u>
	<u>\$ 5,854,625</u>

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of 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 follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Investments

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District’s investment is not required to be categorized within the fair value hierarchy. The investment’s value is calculated using the net asset value method (NAV) per share.

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Notes to Financial Statements December 31, 2021

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

COLOTRUST

The Colorado Local Government Liquid Asset Trust (the Trust) is 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. The Trust offers shares in three portfolios, COLOTRUST Prime (Prime), COLOTRUST Plus+ (Plus+) and COLOTRUST Edge (Edge). All portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. Plus+ and Edge may also invest in the highest rated commercial paper. The Prime and Plus+ portfolios are restricted to a weighted average maturity (WAM) of 60 days or less while the Edge portfolio incorporates longer-dated securities with a WAM of 60 days or more. Both Prime and Plus+ portfolios are rated AAAM by Standard and Poor's and the EDGE portfolio is rated AAAf/S1 by Fitch Ratings.

At December 31, 2021, the District had \$0 invested in Prime, \$5,691,368 invested in Plus+, and \$0 invested in Edge.

COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at net asset value as determined by fair value. Each share of Prime and Plus is equal in value to \$1.00 and the redemption frequency is daily with no redemption notice period. Edge's net asset value is managed to approximate a \$10.00 transactional share price and the redemption frequency is five business days. The principal value of an Edge investment may fluctuate and could be greater or less than \$10.00 per share at time of purchase, prior to redemption, and at the time of redemption. There are no unfunded commitments.

Credit Risk

The District's investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

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Notes to Financial Statements
December 31, 2021

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2021 follows:

	Balance 12/31/2020	Additions	Deletions / Transfers	Balance 12/31/2021
<u>Governmental Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 4,129,401	\$ 16,618,324	\$ (5,124,448)	\$ 15,623,277
Easements & ROW	202,109	-	-	202,109
Total capital assets not being depreciated	4,331,510	16,618,324	(5,124,448)	15,825,386
<u>Capital assets being depreciated:</u>				
Roads	2,029,247	-	-	2,029,247
Total capital assets being depreciated:	2,029,247	-	-	2,029,247
Accumulated depreciation:				
Roads	1,251,368	101,462	-	1,352,830
Total accumulated depreciation:	1,251,368	101,462	-	1,352,830
Net capital assets being depreciated	777,879	(101,462)	-	676,417
Government type assets, net	<u>\$ 5,109,389</u>	<u>\$ 16,516,862</u>	<u>\$ (5,124,448)</u>	<u>\$ 16,501,803</u>
<u>Business Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ -	\$ -	\$ 1,548,227	\$ 1,548,227
Total capital assets not being depreciated	-	-	1,548,227	1,548,227
<u>Capital assets being depreciated:</u>				
Utilities	202,121	-	-	202,121
Water system	4,107,233	123,497	3,576,221	7,806,951
Sewer system	3,411,274	-	-	3,411,274
Storm sewer	330,379	-	-	330,379
Total capital assets being depreciated:	8,051,007	123,497	3,576,221	11,750,725
Accumulated depreciation:				
Utilities	124,642	10,106	-	134,748
Water system	1,220,795	154,717	-	1,375,512
Sewer system	1,005,766	85,282	-	1,091,048
Storm sewer	271,644	22,025	-	293,669
Total accumulated depreciation:	2,622,847	272,130	-	2,894,977
Net capital assets being depreciated	5,428,160	(148,633)	3,576,221	8,855,748
Business type assets, net	<u>\$ 5,428,160</u>	<u>\$ (148,633)</u>	<u>\$ 5,124,448</u>	<u>\$ 10,403,975</u>

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Notes to Financial Statements
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Roads	\$ <u>101,462</u>
Total depreciation expense - governmental activities	\$ <u>101,462</u>
Business-type activities:	
Water and sewer fund	\$ <u>272,130</u>
Total depreciation expense – business-type activities	\$ <u>272,130</u>

Note 4: Long Term Debt

The following is an analysis of changes in long-term debt for the period ending December 31, 2021:

	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021	Current Portion
Developer advances:					
Capital - principal	\$ 1,083,186	\$ 5,450,000	\$ -	\$ 6,533,186	\$ -
Capital - interest	1,348,648	99,920	-	1,448,568	-
	<u>\$ 2,431,834</u>	<u>\$ 5,549,920</u>	<u>\$ -</u>	<u>\$ 7,981,754</u>	<u>\$ -</u>

A description of the long-term obligations as of December 31, 2021, is as follows:

Prior Developer Facilities Funding and Acquisition Agreement

On November 30, 2006, the District and Running Creek Investments, LLC, (“Prior Developer”), entered into a Facilities Funding and Acquisition Agreement (the “FFAA”) whereby the Prior Developer agreed to advance up to \$10,000,000 to the District to fund the construction or acquisition of certain improvements as defined in the FFAA. The District agreed to reimburse all advances made at an interest rate of 8% per annum. All such reimbursements were, and continue to be, subject to annual appropriation by the District’s Board of Directors.

On May 23, 2011, the District and the Prior Developer entered into a First Amendment to the FFAA (the “FFAA First Amendment”) whereby the Prior Developer agreed to reduce the total principal amount payable by \$321,993.37 (the then current outstanding principal balance) and that as of May 18, 2011, no interest would continue to accrue on such amount. The FFAA First Amendment was signed concurrently with an Extraterritorial Water and Sewer Service Agreement with Haynes Family Limited Partnership (see Note 5).

On January 24, 2019, the District and the Prior Developer entered into the Termination of Facilities Funding and Acquisition Agreement, dated effective February 28, 2018, releasing the Prior Developer

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Notes to Financial Statements December 31, 2021

from its obligation to make additional capital advances, and releasing the District from its obligation to reimburse the Prior Developer any funds owed under the FFAA, which at that time equaled exclusively \$54,531.57 in accrued interest (the “Outstanding Advances”). The District assumed the responsibility of reimbursing the Outstanding Advances to MG Land (defined below) pursuant to the MG FFAA (defined below).

MG Land Facilities Funding and Acquisition Agreement

On January 24, 2019, the District and MG Land Investments, LLC, (“MG Land”) entered into a Facilities Funding and Acquisition Agreement, dated effective February 28, 2018, which the District and MG Land subsequently replaced in its entirety on October 21, 2021, with an Amended and Restated Facilities Funding and Acquisition Agreement, dated effective February 28, 2018 (collectively, the “MG FFAA”). Under the MG FFAA, MG Land agreed to advance funds necessary to fund Construction Related Expenses (as defined therein) on a periodic basis as needed by the District, up to the Shortfall Amount (as defined therein) each fiscal year. The District agreed to reimburse the Developer for all Outstanding Advances and Construction Related Expenses, together with interest thereon. Simple interest accrues on Outstanding Advances and Construction Related Advances per annum at a rate of 8% on those made prior to October 1, 2021, and at a rate of 4% on those made on or after October 1, 2021. Accrual on Outstanding Advances begins on February 28, 2018. Accrual on Construction Related Advances begins (a) respecting Developer Advances (as defined therein), on the date of deposit into the District’s account, and (b) respecting Verified Costs (as defined therein), from the date incurred. Payments made apply first against principal, and then interest, of Outstanding Advances, and then apply first against principal, and then interest, of Construction Related Expenses. The District is not required to make any payment under the MG FFAA unless and until the District issues bonds in an amount sufficient to reimburse MG Land for all or a portion of the Outstanding Advances, Developer Advances, and/or Verified Costs. The District is not obligated for Construction Related Expenses and/or Verified Costs incurred by Developer, but not invoiced to the District within three years of the date incurred. In the event the District has not paid or reimbursed the Developer for any Outstanding Advances by December 31, 2032, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full. In the event the District has not paid or reimbursed the Developer for any Construction Related Expenses and/or Verified Costs by December 31, 2059, whether invoiced or not invoiced by such date, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full. At December 31, 2021, the District had \$6,533,186 of developer advances payable under the MG FFAA, and \$1,448,586 of accrued interest.

Debt Authorization

As of December 31, 2021, the District had remaining voted debt authorization of approximately \$273,750,000. The District did not budget to issue new debt in 2022.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

Note 5: District Agreements

Intergovernmental Fee Agreement

On November 1, 2004, the District and District No. 2 entered into an Intergovernmental Fee Agreement, as amended by the First Amendment, dated June 14, 2005, and the Second Amendment, dated September 4, 2007 (the “IFA”). The IFA contemplates that District No. 2 anticipates issuing general obligation bonds (the “Bonds”) to pay for the construction and installation of certain water and sewer facilities. To repay the principal and interest on the Bonds, District No. 2 pledged the Capital Component (as defined therein) of the Tap Fees (as defined therein) imposed by District No. 2 for the first 649 Tap Fees it collects. The IFA further provides that property owners or users within District No. 2 pay Tap Fees imposed by the District will be credited as having paid District No. 2 Tap Fees.

After District No. 2 receives the first 649 Tap Fees pledged to the repayment of the Bonds, District No. 2 will transfer to the District a portion of the Tap Fees it receives, being the District No. 1 Portion (as defined therein) to pay for operations and maintenance of the water and sanitation facilities.

Pursuant to that certain Resolution No. 2014-11-03 to Set New Rates for Tap Fees and Service Charges Effective as of January 1, 2015, adopted November 17, 2014, and recorded February 12, 2015, the District imposed a Tap Fee (described therein as a System Development Fee) at a rate of \$16,200 per equivalent residential unit. The Tap Fee is composed of a \$9,200 Capital Component and a \$7,000 O&M Component. The District may determine on a case-by-case basis whether to use the Tap Fee for uses other than residential dwellings. The Tap Fee was updated on September 16, 2020, by that certain Resolution No. 2020-09-02 to Confirm Schedule of Fees and Charges and, Without Changing Total Fees Due, Designating in Spring Valley Metropolitan District No. 2 the Capital Component of the Tap Fee to \$16,200 and the O&M Component of the Tap Fee to be \$0, which changed the Tap Fee to be composed of a \$16,200 Capital Component and a \$0.00 O&M Component. It is clarified therein that the Tap Fee applies to all property subject to the District’s Rules and Regulations, including the property within the District’s Service Area, such as District Nos. 2-4.

On August 22, 2019, the District and District No. 3 adopted Joint Resolution 2019-08-02 Authorizing Collection of the Capital Component of Tap Fees for repayment of Bonds, whereby District No. 3 was authorized to collect and use the Capital Component of the Tap Fees, not otherwise pledged, for repayment of District No. 3’s \$4,075,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2020A, and \$2,661,000 Subordinate Limited Tax General Obligation Bonds, Series 2020B(3) issuance, which closed January 29, 2020 (the “District No. 3 2020 Bonds”).

On March 9, 2020, the District and District No. 4 adopted Joint Resolution 2020-03-04 Authorizing Collection of the Capital Component of Tap Fees for Repayment of Bonds dated August 22, 2019, whereby District No. 4 is authorized to collect and use the Capital Component of the Tap Fees for repayment of District No. 4’s Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2020A and \$5,621,000 Subordinate Limited Tax General Obligation Bonds, Series 2020B issuance, which closed August 12, 2020 (the “District No. 4 2020 Bonds”).

On September 16, 2020, the District and District No. 2 entered into Joint Resolution 2020-09-01 Authorizing Collection of the Capital Component of the Tap Fees for Repayment of Bonds, whereby

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

District No. 2 is authorized to collect and use the Capital Component of the Tap Fees not otherwise pledged for repayment of District No. 2's \$12,850,000 2020 Loan Agreement and Promissory Note, which closed September 22, 2020 (the "District No. 2 Series 2020 Loan").

On October 21, 2021, the District and District No. 6 adopted Joint Resolution 2021-10-05 Authorizing Collection of Capital Component of Tap Fees for Repayment of Bonds, whereby District No. 6 is authorized to collect and use the Capital Component of the Tap Fees not otherwise pledged for repayment of District No. 6's \$15,070,000 General Obligation Limited Tax Bonds, Series 2021(3) issuance, which closed on January 27, 2022 (the "District No. 6 2020 Bonds").

Facilities Funding, Construction, and Operations Agreement

On July 19, 2007, the District entered into a Facilities Funding, Construction and Operations Agreement with District No. 2, District No. 3, and District No. 4, which all parties subsequently replaced in its entirety on November 21, 2019, pursuant to a First Amended and Restated Facilities Funding, Construction and Operations Agreement, which was again replaced in its entirety on October 21, 2021, pursuant to a Second Amended and Restated Facilities Funding, Construction and Operations Agreement between the previous parties, District No. 5 and District No. 6 (collectively, the "FFCOA"). The purpose of the FFCOA is to bind the parties thereto concerning capital expenditure and operation and maintenance expenses so that the cost of providing services to the Spring Valley Development (as defined therein) are shared by the users of the Primary Facilities (as defined therein), Secondary Facilities (as defined therein), and services under the numerous circumstances that may occur in the future. Pursuant to the terms of the FFCOA, each of District Nos. 1-6 agreed that the District will own (subject to potential transfer to other governmental entities or authorities), operate, maintain, finance and construct Primary Facilities and certain Secondary Facilities and that District Nos. 2-6 will contribute to the costs of construction, operation, and maintenance of such Primary Facilities and Secondary Facilities. District Nos. 2-6 acknowledge that the District is relying on their commitment to issue General Obligation Bonds and remit the net process thereof to the District so it can pay for certain capital costs therein contemplated. District Nos. 2-6 also agreed to contribute to the District's costs of construction, operation and maintenance, in part, by a pledge of the mill levy imposed of those purposes.

Agreement of Acknowledgement of Satisfaction of Obligations of District No. 2

On November 21, 2019, the District and District Nos. 2-4 entered into an Agreement of Acknowledgement of Satisfaction of Obligations of District No. 2 Related to the Funding of Construction of Public Improvements and Acknowledgement of Ongoing Obligations of District Nos. 1, 3 and 4 Related to the Funding of Construction of Public Improvements, as amended by the First Amendment on September 16, 2020 (the "Acknowledgement Agreement"). The Acknowledgement Agreement acknowledged that, other than District No. 2's obligation to collect and remit 649 District Tap Fees (as defined therein) to the District, District No. 2 has satisfied all obligations due to the District for the funding of construction of Public Improvements arising under those agreements existing as of the effective date of the Acknowledgement Agreement, and that District No. 2 shall have no further obligation to make any payments to the District for the funding of the construction of Public Improvements (as defined therein) under any existing agreement. The Acknowledgement Agreement also acknowledged that, pursuant to the FFCOA, the District shall enter into a Facilities Funding and Acquisition Agreement with MGLand for the reimbursement of Outstanding Reimbursement Obligation (as defined therein) of the District, consistently with the Termination of the District No. 2 MGL FFAA

Spring Valley Metropolitan District No. 1

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(as defined below). Additionally, the District and District Nos. 3 and 4 acknowledge that there may be additional districts organized that will issue bonds and work with the District and District Nos. 3 and 4 to help fund the remaining Public Improvements and that they shall exercise reasonable efforts to assure the additional district become parties to the FFCOA to contribute towards the reimbursement of the Outstanding Reimbursement Obligation and to complete the Public Improvements. The Acknowledgement Agreement also clarifies that District No. 2 bears sole responsibility to make all payments related to its repayment of the District No. 2 2020 Loan (as defined therein).

Outstanding Reimbursement Obligation and Infrastructure Funding Agreement

On November 21, 2019, the District, District No. 3, District No. 4, and MG Land entered into an Outstanding Reimbursement Obligation and Infrastructure Funding and Acquisition Agreement, amended by the First Amendment to same, dated September 16, 2020, all of which was subsequently replaced in its entirety on October 21, 2021, by the Amended and Restated Outstanding Reimbursement Obligation and Infrastructure Funding and Acquisition Agreement, by and between the District, District Nos. 3-6, and MG Land (the “OROIFAA”). Pursuant to the OROIFAA, District No. 2 assented to the Outstanding Reimbursement Obligation (as defined therein) being transferred to the District, which MG Land released District No. 2 from its commitment to repay pursuant to the Termination of the District No. 2 MGL FFAA (as defined therein). The District assumed responsibility to repay the Outstanding Reimbursement Obligation, in addition to the District’s other obligations to MG Land, including, without limitation, the MGL Advances (as defined therein), which MG Land may advance to the District under the OROIFAA up to the Shortfall Amount (as defined therein). Further, District Nos. 3-6 expressed their assent to District No. 1 entering into the OROIFAA in reliance on their respective commitments to issue General Obligation Bonds and, pursuant to the FFCOA, remit the net proceeds of the General Obligation Bonds to District No. 1, in part to make payment to MG Land for payments under the OROIFAA, including, without limitation, the Outstanding Reimbursement Obligation, Construction Related Expenses (as defined therein), and the acquisition of Facilities (as defined therein). Interest shall accrue on MGL Advances from the date of deposit into the District’s account, and on Verified Costs (as defined therein) from the date incurred. Interest on MGL Advances and Verified Costs incurred prior to October 1, 2021, accrues at a rate of 8%. Interest on MGL Advances and Verified Costs incurred on or after October 1, 2021, accrues at a rate of 4%. Payments credit first against principal due and then to accrued and unpaid interest. Any Construction Related Expenses or Verified Costs not paid or reimbursed by the District by December 31, 2059, regardless of whether they have been invoiced, including principal and interest, shall be deemed forever discharged and satisfied in full.

Extraterritorial Water and Sewer Service Agreement

On May 23, 2011, the District entered into an Extraterritorial Water and Sewer Service Agreement with Haynes Family Limited Partnership (the “Gold Club Party”). In accordance therewith, and concurrent with the approval of the FFAA First Amendment (see Note 4), as well as the associated reductions of outstanding developer advance principal obligations of the District and District No. 2 for a total of \$600,000, the District agreed to provide irrigation water and sewer service to the Golf Club Party up to \$300,000. The Gold Club Party must meet certain metering and notification requirements.

Letter Agreement with Melody Homes, Inc.

On November 21, 2013, the District entered into a Letter Agreement with District No. 2 and Melody Homes, Inc. (“Melody”) whereby Melody agreed to pay the District a prepayment of the \$5,000

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Notes to Financial Statements December 31, 2021

operations and maintenance component of the \$12,200 tap fee (established by the District and District No. 2) for 40 lots for a total of \$200,000. The District agreed to deposit \$100,000 in an escrow account for the purpose of completing the road repairs necessary to obtain an initial and final acceptance of the public streets by Elbert County. The \$100,000, along with an additional \$20,000 (see Agreement Regarding Road Repairs) were restricted and transferred to the Capital Fund. The remainder of the funds was used to repay the developer advances (see Note 4) and to provide funds to pay operations expenses. The \$100,000 in the escrow account was released in May 2017 to the District and \$50,000 of the funds released were used to repay accrued interest on developer advances.

Agreement Regarding Road Repairs

On November 30, 2013, the District entered into an Agreement Regarding Road Repairs with Elbert County and Fidelity National Title Company (“Fidelity”) whereby the District agreed to deposit \$20,000 of the funds received from Melody (see Letter Agreement with Melody Homes, Inc.) into an escrow account for the purpose of providing funds for road repairs. In addition, \$3,000 from each subsequently received \$5,000 operations and maintenance component of the \$12,200 tap fee for a list of 58 predefined lots is to be added to the escrow account. The funds can be withdrawn upon the receipt by the escrow agent of the necessary documentation supporting the completion of road repairs.

Facilities Acquisition and Fee Credit Agreement

On April 27, 2017, the District entered into a Facilities Acquisition and Fee Credit Agreement (“FAFCA”) with District No. 3 and Century at Spring Valley Ranch, LLC (“Century”). Thereunder, in exchange for Century constructing the Roads (as defined therein), the District agreed to grant to Century credits against certain Combined Fees (as defined therein) associated with a total of 52 individual lots. The Combined Fees are composed of the System Development Fee (as defined therein) and the Facilities Fee (as defined therein), combining for a total of \$20,150 per lot. Century would have otherwise owed to the District the Combined Fees, in association with Century’s development of such 52 lots, the development of which benefits District No. 3.

Development Improvement Agreement with Melody Homes, Inc.

The District entered into the Development Improvement Agreement (Spring Valley Ranch Filing 5) with Melody Homes, Inc. (“Melody”) dated December 2, 2021 (“Development Improvement Agreement – Melody”), in which Melody agreed to be responsible for funding and constructing County Roads 13, 174 and 178 (the “County Roads”) and the Lift Station in order to develop its lots. The Development Improvement Agreement – Melody also sets forth the conditions under which the Developer, rather than the District, will complete construction of the County Roads and the Lift Station.

Step-In Rights Agreement with Melody Homes, Inc.

The District entered into the Step-In Rights Agreement with Melody dated December 2, 2021 (the “Step-In Rights Agreement – Melody”), in which the District provided assurances to Melody regarding the completion of the County Roads and the Lift Station and established conditions under which Melody will be permitted to step-in and manage completion of the improvements if the District does not. The Step-In Rights Agreement – Melody automatically terminates when the County Roads are initially accepted by Elbert County and when the Lift Station is initially accepted by the District. As of December 31, 2021, the District had met all required milestones.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

Waiver and Release with Melody Homes, Inc.

The District, Spring Valley Land Investments, LLC (“SVLI”), and Melody entered into the Waiver and Release of Reimbursement Rights dated December 2, 2021 (“Waiver and Release – Melody”), under which Melody agreed to design, finance and construct the County Roads and Lift Station pursuant to the Development Improvement Agreement – Melody. Under the Waiver and Release – Melody, Melody agreed to assign to SVLI any rights to reimbursement that Melody may be entitled to from the District.

Development Improvement Agreement with Century Land Holdings, LLC

The District, Spring Valley Land Investments II, LLC (“SVLI II”) and Century Land Holdings, LLC (“Century”) entered into the Development Improvement Agreement (Builder Public Improvements) dated December 10, 2021, under which Century agreed to construct and install Calusa Pines Drive and River Highlands Drive, including related public improvements (“Road Improvements”).

Step-In Rights Agreement with Century Land Holdings, LLC

The District, SVLI II and Century entered into the Step-In Rights Agreement dated December 10, 2021, pursuant to which the District provided assurances to Century regarding the completion of the Road Improvements and established the conditions under which Century will be permitted to step-in and manage completion of the Road Improvements if the District does not. Century also agreed to waive any rights to reimbursement from the District for any costs incurred in connection with any Road Improvements constructed or installed by Century.

Waiver and Release with Century Land Holdings, LLC

The District, SVLI II, and Century entered into the Waiver and Release of Reimbursement Rights dated December 10, 2021, pursuant to which Century agreed to assign to SVLI II any rights to reimbursement that Century might otherwise be eligible for from the District for any public improvements.

Development Improvement Agreement with LGI Homes – Colorado, LLC

The District and LGI Homes – Colorado, LLC (“LGI”) entered into the Development Improvement Agreement Spring Valley Ranch Filing 6 dated December 17, 2021, pursuant to which LGI agreed to finance and construct the Augusta Loop and Bridge. LGI further acknowledged its execution of the Waiver and Release (see below) and directed all reimbursements for the costs incurred by LGI related to the August Loop and Bridge to be directed to MG Land.

Step-In Rights Agreement with LGI Homes – Colorado, LLC

The District and LGI entered into a Step-In Rights Agreement dated December 17, 2021, pursuant to which the District and LGI agreed it would be most efficient for LGI to step-in as the project coordinator and to proceed with the bidding and construction of the Augusta Loop and Bridge. The parties agreed that LGI would receive credit for the Road Impact Fee Credit in the amount of \$1,194,986 and a District Contribution in the amount of \$1,205,014 to LGI for the District’s share of the costs of the Augusta Loop and Bridge.

Waiver and Release with LGI Homes – Colorado, LLC

The District, MG Land Investments, LLC (“MG Land”) and LGI entered into a Waiver and Release of Reimbursement Rights dated December 17, 2021, under which LGI agreed to assign to MG Land any rights to reimbursement that LGI might otherwise be eligible for from the District.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2021

Equipment Maintenance Reimbursement Agreement

The District entered into an Equipment Maintenance Reimbursement Agreement (Park and Playground Equipment) with the Spring Valley Ranch Master Owners Association (“Association”) dated December 2, 2020, in which the District agreed to reimburse the Association 50% of Equipment Maintenance Costs for park and playground equipment installed within the boundaries of the District on or before June 1st of every year beginning June 1, 2022. The District’s obligations under this agreement continue indefinitely until terminated by either party.

Cost Sharing Agreement

The District entered into a Cost Sharing Agreement (County Roads 13, 174 and 178) with GMT Exploration Company LLC (“GMT”) dated August 25, 2021 (“Cost Sharing Agreement”), pursuant to which GMT agreed to contribute a total of \$1,650,000 towards the construction of County Roads 13, 174 and 178. GMT’s payments are due in three equal installments as follows: #1 within 30 days of execution of the Cost Sharing Agreement; #2 within ten business days of the Second Payment Trigger (as defined in the Cost Sharing Agreement); and #3 within ten business days of the Third Payment Trigger (as defined in the Cost Sharing Agreement).

Intergovernmental Agreement Regarding Assignment of Revenues

The District entered into an Intergovernmental Agreement Regarding Assignment of Revenues with Spring Valley Metropolitan District No. 6 (“District No. 6”) dated October 21, 2021, pursuant to which the District and District No. 6 agreed that revenues pledged to secure payment of the District No. 6 Bonds will include the Capital Component of the District No. 1 Tap Fee and the Facilities Fees, as each are defined in the Indenture executed by District No. 6 in connection with the District No. 6 Bonds.

Letter Agreement with LGI and District No. 2

The District entered into a Letter Agreement with LGI and Spring Valley Metropolitan District No. 2 (“District No. 2”) dated December 17, 2021 (“Letter Agreement”), pursuant to which LGI agreed to be required to make payment of all fees and charges for water, sanitary sewer, storm drainage and other services as set forth in the Letter Agreement, including and not limited to, the System Development Fees and the Water and Sewer Operations Reserve Fee, subject to the application of any available System Development Fee Credit, as well as the Facilities Fee and a Road Operations Reserve Fee. The Letter Agreement shall terminate upon the earlier to occur of (i) the issuance of the last certificate of occupancy for the Lots within the Property, or (ii) December 27, 2027, unless otherwise agreed in writing by the parties.

Note 6: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2021

Note 7: Segment Information

The District's enterprise fund provides "water and sewer services". Segment information for the year ended December 31, 2021 was as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenue	\$ 566,239	\$ 311,108	\$ 877,347
Depreciation	170,782	101,348	272,130
Net operating income (loss)	123,206	(138,252)	(15,046)
Total capital assets	7,257,594	3,146,381	10,403,975

Note 8: Tax, Spending and Debt Limitations

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

Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes a significant portion of its operations qualifies for this exclusion.

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 6, 2001, the District's electors authorized the District to increase taxes \$1,000,000 annually, or by such lesser annual amount as may be necessary to pay the District's operations, maintenance and other expenses in fiscal year 2002 and subsequent years. Such taxes and related investment income are to be collected and spent without regard to any spending, revenue-raising, or other limitation. Additionally, the District's electors authorized the District to retain and spend any and all amounts annually from any revenue sources whatsoever other than ad valorem taxes, including but not limited to tap fees, facility fees, service charges, inspection charges, administrative charges, grants

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2021

and any other fee, rate, toll, penalty, income or charge imposed, collected or authorized by law to be imposed or collected by the District without limitation by Article X, Section 20 of the Colorado Constitution.

Note 9: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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 10: Interfund and Operating Transfers

During 2021, the District transferred \$7,192 from the General Fund to the Road Maintenance Fund to fund expenses of that fund prior to that fund beginning to charge its maintenance fee.

SUPPLEMENTAL INFORMATION

Spring Valley Metropolitan District No. 1

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 Capital Projects Fund
 For the year ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Transfer from District No. 2	\$ 1,439,000	\$ 1,439,000	\$ 796,694	\$ (642,306)
Transfer from District No. 3	1,888,935	1,888,934	1,981,147	92,213
Transfer from District No. 4	10,622,036	10,622,036	10,660,805	38,769
Transfer from District No. 6	-	6,570,499	-	(6,570,499)
Road impact contribution and other	-	1,665,000	1,665,208	208
Total Revenues	13,949,971	22,185,469	15,103,854	(7,081,615)
EXPENDITURES				
Capital Outlay				
Accounting and audit	15,000	15,000	20,759	(5,759)
Engineering	300,000	300,000	149,397	150,603
Legal	100,000	100,000	80,085	19,915
Construction, repairs, and other capital	14,740,000	20,455,000	16,368,083	4,086,917
Total Capital Outlay	15,155,000	20,870,000	16,618,324	4,251,676
Debt Service				
Repay developer advances - principal	-	1,617,433	-	1,617,433
Repay developer advances - interest	-	748,036	-	748,036
Total Debt Service	-	2,365,469	-	2,365,469
Total Expenditures	15,155,000	23,235,469	16,618,324	6,617,145
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(1,205,029)	(1,050,000)	(1,514,470)	(464,470)
OTHER FINANCING SOURCES (USES)				
Developer advance	1,205,029	1,050,000	5,450,000	4,400,000
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	1,205,029	1,050,000	5,450,000	4,400,000
NET CHANGE IN FUND BALANCE				
	-	-	3,935,530	3,935,530
FUND BALANCE, BEGINNING OF YEAR				
	-	-	-	-
FUND BALANCE, END OF YEAR				
	\$ -	\$ -	\$ 3,935,530	\$ 3,935,530

Spring Valley Metropolitan District No. 1

Schedule of Revenues and Expenditures - Budget and Actual

Proprietary Fund

For the year ended December 31, 2021

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Water service charges	\$ 400,000	\$ 452,054	\$ 52,054
Sewer service charges	276,000	301,326	25,326
Hydrant water usage fees	15,000	91,338	76,338
Transfer fees	-	9,600	9,600
Penalty fees - water and sewer	15,000	6,480	(8,520)
Meter fees	9,000	13,065	4,065
Inspection fees	3,000	-	(3,000)
Miscellaneous income	3,000	3,484	484
Interest income	500	508	8
Total Revenues	<u>721,500</u>	<u>877,855</u>	<u>156,355</u>
EXPENDITURES			
Accounting	12,000	14,047	(2,047)
Bank fees	3,500	4,211	(711)
Capital outlay	154,000	123,497	30,503
Chemicals and testing	99,267	30,521	68,746
Contingency	250,000	-	250,000
Engineering	20,000	5,185	14,815
Facility maintenance and repairs	81,898	75,924	5,974
Insurance	30,000	42,455	(12,455)
Jetting	27,400	17,979	9,421
Legal	30,000	2,193	27,807
Management	45,000	39,554	5,446
Meter installation	15,000	8,276	6,724
Miscellaneous	7,000	3,411	3,589
Sludge hauling	60,000	57,783	2,217
Utilities	170,000	190,430	(20,430)
Water and sewer operations	113,600	128,294	(14,694)
Total Expenditures	<u>1,118,665</u>	<u>743,760</u>	<u>374,905</u>
Net Income (Loss) Non-GAAP Basis	(397,165)	134,095	531,260
Reconciliation to GAAP Basis			
Depreciation and amortization		(272,130)	
Transfer in of capital assets		5,124,448	
Capitalized expenditures		123,497	
Net Income (Loss) GAAP Basis		<u>\$ 5,109,910</u>	