Spring Valley Metropolitan District No. 1
ELBERT COUNTY, COLORADO

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2022

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Spring Valley Metropolitan District No. 1
Elbert County, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of Spring Valley Metropolitan District No. 1 (the "District"), as of and for the year ended December 31, 2022, 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, business-type activities, and each major fund of the Spring Valley Metropolitan District No. 1, as of December 31, 2022, 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 the District, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards, 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 the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required budgetary comparison schedule for the general fund, as identified in the table of contents, 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 has 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparisons for the capital improvement fund and for the debt service fund, as identified in the table of contents, are presented for purposes of additional 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, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

FredrickZink & Associates, PC

FredrickZink & Associates, PC
September 27, 2023

BASIC FINANCIAL STATEMENTS

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

December 31, 2022

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and investments	$ 2,749,228	$ 1,486,605	$ 4,235,833
Accounts receivable - customer	-	69,170	69,170
Prepaid expenses	-	700	700
Total current assets	2,749,228	1,556,475	4,305,703
Capital assets	17,325,696	10,903,877	28,229,573
Total assets	$ 20,074,924	$ 12,460,352	$ 32,535,276
LIABILITIES			
Current liabilities			
Accounts payable	$ 4,449	$ 148,167	$ 152,616
Retainage payable	37,533	-	37,533
Developer advances payable - accrued interest	1,526,812	-	1,526,812
Developer advances payable - capital	515,752	-	515,752
Total liabilities	$ 2,084,546	$ 148,167	$ 2,232,713
NET POSITION			
Net investment in capital assets	$ 15,283,132	$ 10,903,877	$ 26,187,009
Restricted for:			
Emergency reserves	4,823	-	4,823
Capital improvement	2,436,665	-	2,436,665
Unrestricted	265,758	1,408,308	1,674,066
Total net position	$ 17,990,378	$ 12,312,185	$ 30,302,563

The notes to the financial statements are an integral part of these statements.

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2022

		Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:						
General government	$ 267,066	$ -	$ 30,876	$ (236,190)	$ -	$ (236,190)
Interest and related costs on long-term debt	78,244	-	-	(78,244)	-	(78,244)
Total governmental	345,310	-	30,876	(314,434)	-	(314,434)
Business-type Activities:						
Water - operations	378,772	1,156,320	-	-	777,548	777,548
Sewer - operations	469,003	344,285	-	-	(124,719)	(124,719)
Water - depreciation	219,208	-	-	-	(219,208)	(219,208)
Sewer - depreciation	101,735	-	-	-	(101,735)	(101,735)
Total business-type	1,168,718	1,500,604	-	-	331,886	331,886
Totals	$ 1,514,028	$ 1,500,604	$ 30,876	$ (314,434)	$ 331,886	$ 17,452

	Governmental Activities	Business-type Activities	Total
General revenues			
Transfer from District No. 2	$ 543,857	$ -	$ 543,857
Transfer from District No. 3	20,069	-	20,069
Transfer from District No. 4	76	-	76
Transfer from District No. 6	5,769,720		5,769,720
Capital assets transfer	(800,794)	800,794	-
Interest income	26,127	20,649	46,776
Total general revenues and transfers	5,559,055	821,443	6,380,498
Change in net position	5,244,621	1,153,329	6,397,950
Net position, beginning of year	12,745,757	11,158,856	23,904,613
Net position, end of year	$ 17,990,378	$ 12,312,185	$ 30,302,563

The notes to the financial statements are an integral part of these statements.

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2022

	General	Road Reserve Fund	Capital Improvement	Total Governmental Funds
ASSETS				
Cash	$ 270,581	4,449	$ 2,474,198	$ 2,749,228
Total assets	$ 270,581	$ 4,449	$ 2,474,198	$ 2,749,228
LIABILITIES				
Due to Spring Valley Metropolitan District No. 2	$ -	$ 4,449	$ -	$ 4,449
Retainage payable	-	-	37,533	37,533
Total liabilities	-	4,449	37,533	41,982
FUND BALANCE				
Restricted:				
Emergency reserves	4,823	-	-	4,823
Capital projects	-	-	2,436,665	2,436,665
Unassigned	265,758	-	-	265,758
Total fund balance	270,581	-	2,436,665	2,707,246
Total liabilities and fund balances	$ 270,581	$ 4,449	$ 2,474,198	

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	$ 17,325,696
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	(515,752)
Developer advances interest payable	(1,526,812)
Net position of governmental activities	$ 17,990,378

The notes to the financial statements are an integral part of these statements.

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2022

	General	Road Reserve Fund	Capital Improvement	Total
REVENUES				
Transfer from District No. 2	$ 121,896	$ -	$ 421,961	$ 543,857
Transfer from District No. 3	20,069	-	-	20,069
Transfer from District No. 4	76	-	-	76
Transfer from District No. 6	9	-	5,769,711	5,769,720
Road impact contribution and other	-	-	30,876	30,876
Interest Income	3,957	-	22,170	26,127
Total revenues	146,007	-	6,244,718	6,390,725
EXPENDITURES				
Accounting and audit	36,360	-	13,554	49,914
District management	56,035	-	-	56,035
Election	705	-	-	705
Engineering	-	-	151,520	151,520
Legal	64,441	-	66,796	131,237
Miscellaneous	3,239	-	-	3,239
Repairs and maintenance	-	4,824	-	4,824
Capital outlay	-	-	1,494,279	1,494,279
Total expenditures	160,780	4,824	1,726,149	1,891,753
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(14,773)	(4,824)	4,518,569	4,498,972
OTHER FINANCING SOURCES (USES)				
Transfers in	-	4,824	-	4,824
Transfers out	(4,824)	-	-	(4,824)
Developer advance	-	-	(6,017,434)	(6,017,434)
Total Other Financing Sources (Uses)	(4,824)	4,824	(6,017,434)	(6,017,434)
Net change in fund balances	(19,597)	-	(1,498,865)	(1,518,462)
Fund balance, beginning of year	290,178	-	3,935,530	4,225,708
Fund balance, end of year	$ 270,581	$ -	$ 2,436,665	$ 2,707,246

The notes to the financial statements are an integral part of these 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, 2022

Net change in fund balances - total governmental funds	$ (1,518,462)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful 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	1,726,149
Capital assets transferred from governmental activities to the proprietary fund	(800,794)
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	6,017,434
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	(78,244)
Change in net position of governmental activities	$ 5,244,621

The notes to the financial statements are an integral part of these statements.

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION - PROPRIETARY FUND

December 31, 2022

ASSETS		
Current assets		
Cash and investments	$	1,486,605
Accounts receivable - customer		69,170
Prepaid expenses		700
Total current assets		1,556,475
Capital assets		10,903,877
Total assets	$	12,460,352
LIABILITIES		
Current liabilities		
Accounts payable	$	148,167
Total current liabilities		148,167
Total liabilities	$	148,167
NET POSITION		
Net investment in capital assets	$	10,903,877
Unrestricted		1,408,308
Total net position	$	12,312,185

The notes to the financial statements are an integral part of these statements.

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND

For the Year Ended December 31, 2022

OPERATING REVENUES		
Water service charges	$	472,900
Sewer service charges		330,506
Hydrant water usage fees		656,870
Transfer fees		17,566
Meter fees		12,771
Penalty fees - water and sewer		10,395
Miscellaneous income		(404)
Total operating revenues		1,500,604
OPERATING EXPENSES		
Accounting		21,759
Bank fees		3,493
Capital outlay		4,742
Chemicals and testing		26,577
Depreciation and amortization		320,943
Engineering		793
Facility maintenance and repairs		113,276
Insurance		27,450
Jetting		-
Legal		-
Management		60,832
Meter installation		24,127
Miscellaneous		7,181
Sludge hauling		90,232
Utilities		315,923
Water and sewer operations		151,390
Total operating expenses		1,168,718
Income (loss) from operations		331,886
NONOPERATING REVENUES		
Interest income		20,649
Transfer in of capital assets		800,794
Total nonoperating revenues		821,443
Net income (loss) - change in net position		1,153,329
Net position, beginning		11,158,856
Net position, ending	$	12,312,185

The notes to the financial statements are an integral part of these statements.

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended December 31, 2022

Cash flows from operating activities		
Receipts from customers	$	1,490,389
Payments to suppliers		(900,016)
Net cash provided by operating activities		590,373
Cash flows from capital and related financing activities		
Payments related to acquisition of capital assets		(20,051)
Net cash required by capital and related financing activities		(20,051)
Cash flows from investing activities		
Investment income		20,649
Net cash provided by investing activities		20,649
Net increase in cash and cash equivalents		590,971
Cash and cash equivalents, beginning		895,634
Cash and cash equivalents, ending	$	1,486,605
Reconciliation of operating income to net cash provided by operating activities:		
Net income from operations	$	331,886
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		320,943
Changes in assets and liabilities:		
Accounts receivable		(10,215)
Prepaid expenses		(250)
Accounts payable, net of capital activities		(51,991)
Net adjustments		258,487
Net cash provided by operating activities	$	590,373
Noncash capital and related financing activities:		
Capital assets transferred from governmental activities		800,794

The notes to the financial statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Spring Valley Metropolitan District No. 1, herein referred to as the District, conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Significant accounting policies of the District are described below.

A. Reporting entity

The District was organized pursuant to provisions set forth in the 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 purpose of the District is 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 governing body of the District consists of a five-member Board of Directors which is elected by the registered voters within the District.

District No. 1 provides 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.

The Governmental Accounting Standards Board (GASB) has specified the criteria to be used in defining a governmental entity for financial reporting purposes. The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations that are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the District's financial statements do not include any component units, nor do they exclude any potential component units requiring inclusion in the District's reporting entity, nor is the District a component unit of any other government. The District's financial statements include the accounts of all District operations.

B. Basis of presentation

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. *Governmental activities,* which normally are 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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments 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. Other items not properly included amount 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.

Fund Financial Statements

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance by segregating transactions related to certain governmental functions or activities. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The District's funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations based upon the purposes for which they are to be spent and by the means by which spending activities are controlled. The various funds of the District are outlined in the following paragraphs:

Governmental Fund Types

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures, other financing uses, and special items) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

General Fund – The general fund is used to account for all financial resources, except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose, provided it is expended or transferred according to general laws of Colorado and the bylaws of the District.

Road Reserve Fund – The Road Reserve 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 Improvement Fund – The capital improvement fund is used to account for proceeds from the General Obligation Bonds from the related Districts and developer advances that are used for major capital and equipment additions.

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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

C. Measurement focus and basis of accounting

Government-Wide Financial Statements
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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements
Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when measurable and available. The District considers all revenues available if they are collected within 60 days after year-end. The sources of revenue considered susceptible to accrual because they are both measurable and available to finance expenditures of the current period are transfers from Districts No. 2, No. 3, No. 4, and No. 6.

Expenditures are recorded when the related fund liability is incurred, except for un-matured principal and interest on general long-term debt, which is recognized when due. Proceeds of general long-term liabilities are reported as other financing sources.

D. Budgets
The District uses the following procedures in establishing the budgetary data reflected in the financial statements:

1) Prior to October 15, the District Board receives a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. A "Notice of Budget" is published when the budget is received.

2) Public hearings are held to obtain taxpayer comments.

3) Prior to December 15, the Board shall adopt, by resolution, the budget for the ensuing fiscal year and shall certify the tax levy to the Board of County Commissioners.

4) On or before December 31, the Board shall pass an annual appropriating resolution in which such sums of money shall be appropriated as the Board deems necessary to defray all expenses and liabilities of the District during the ensuing year.

5) The District's budgets are adopted on a basis consistent with generally accepted accounting principles for governmental entities. Annual appropriated budgets are adopted for all funds. The level of control in the budget at which expenditures exceed appropriations is at the fund level.

6) After adoption of the budget ordinance, the District may make by ordinance the following changes: a) supplemental appropriations to the extent of revenues in excess of the estimated budget; b) emergency appropriations; c) reduction of appropriations for which originally estimated revenues are insufficient.

7) Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund. Budget amounts included in the financial statements are based on final legally amended budgets.

8) Budget appropriations lapse at the end of each year.

The District legally adopted annual budgets for all of the District's funds for 2022. The adopted appropriation for the combined funds was $12,208,778 for the current fiscal year.

E. Restricted Assets and Classification of Fund Balance

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. It is the District's policy to use restricted assets first when an expense is incurred for which both restricted and unrestricted assets are available.

In the governmental fund financial statements fund balance is reported in five classifications.

Nonspendable: 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: The Colorado Constitution as amended by TABOR (see separate statutory compliance note) requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. In compliance with this requirement, the District reports a restricted fund balance in the General Fund for emergency reserves. Additionally, the District's fund balance in the Capital Improvement Fund is restricted for capital projects as required by its bond indenture and developer advances. It is the District's policy to use restricted fund balance first when an expense is incurred for which both restricted and unrestricted fund balance are available.

Committed: Committed is that portion of fund balance that has been committed by the highest level of formal action of the District's Board of Directors and does not lapse at year-end. The constraint may be removed or changed only through formal action of the Board of Directors. The District does not have any committed fund balance at year end.

Assigned: Assignments of fund balance are designated by the Board of Directors or to which the Board of Directors delegates authority for a specific use by the District.

Unassigned: Fund balance that has not been reported in any other classification is reported as unassigned and are available for any purpose.

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.

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.

F. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents. Certificates of deposit with maturities exceeding twelve months are also considered to be cash equivalents when early redemption charges would not be significant.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds and/or Districts” (i.e., the current portion of interfund loans) or “advances to/from other funds and/or Districts” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

H. Capital Assets

All capital assets purchased or acquired with an original cost in excess of the capitalization thresholds set by the District are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value on the date of the donation. 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. Repairs and maintenance are recorded as expenditures as incurred; while additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized.

I. Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

2. CASH AND INVESTMENTS

The District's policy in determining which items are treated as cash equivalents include cash, demand deposits, treasury bills, and other short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

Investments are reported at fair value which is determined using selected bases. Short term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last quoted market price. Cash deposits are reported at carrying amounts which reasonably estimates fair value.

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. The eligible depository is required to pledge to the Colorado Division of Banking a pool of collateral having a market value that at all times exceeds 102 percent of uninsured aggregate public deposits. The eligible collateral is determined by the PDPA, which includes obligations of the United States, the State of Colorado, Local Colorado governments, and obligations secured by first lien mortgages on real property located in the state. 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 State Regulatory Commission for banks and financial services is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

There is no custodial credit risk for public deposits collateralized under PDPA.

In order to facilitate the recording of cash transactions and maximize interest earnings, the District has pooled cash deposits for all funds. The District maintains accountability for each fund's equity in pooled cash. Interest earnings for combined funds are generally distributed based on monthly cash balances.

At December 31, 2022, all of the District's deposits were held in eligible depositories as required by PDPA in accordance with state statute, and had total balances (as reflected on the bank's records, before outstanding items) on deposit of $953,603 of which $250,000 was covered by FDIC insurance.

The District has not adopted a formal investment policy; however, the District invests public funds in a manner which will provide the highest investment return with the maximum security, meet daily cash flow demands, and conform to all federal, state and local statutes governing the investment of public funds. This applies to the investment of all financial assets of all funds of the District over which it exercises financial control.

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

Obligations of the United States and certain U.S. governmental agency securities, including securities issued by FNMA (federal national mortgage association), GNMA (governmental national mortgage association), FHLMC (federal home loan mortgage corporation), the federal farm credit bank, the federal land bank, the export-import bank, and by the Tennessee Valley Authority, and certain international agency securities, including the World Bank

General obligation and revenue bonds of U.S. local government entities, the District of Columbia, and territorial possessions of the U.S. rated in the highest two rating categories by two or more nationally recognized rating agencies

Bankers' acceptances of certain banks

Certain securities lending agreements

Commercial paper

Written repurchase agreements collateralized by certain authorized securities

Certain money market funds

Guaranteed investment contracts

Local government investment pools

The investing local government's own securities including certificates of participation and lease obligations.

Local Government Investment Pool (COLOTRUST)
Included in cash and cash equivalents is $3,283,223 held in the Colorado Local Government Liquid Asset Trust (the 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. 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.

As of December 31, 2022, the District had $0 invested in Prime, $3,283,223 invested in Plus+, and $0 invested in Edge.

Certain investments are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value; 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 investments are not required to be categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in COLOTRUST at year end for which the investment valuations were determined as follows.

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.

The following is a summary of cash and cash equivalents:

	Fair Value
Bank deposits	$ 952,610
COLOTRUST	3,283,223
Total cash and cash equivalents	$ 4,235,833

Risk Disclosures
Additional investment and deposit disclosures for credit risk, interest rate risk, and foreign currency risk, as required by GASB Statement No. 40, Deposit and Investment Risk Disclosures, are included below.

To minimize custodial credit risk, or the risk that an insurer or other counterparty to an investment will not fulfill its obligations, state law limits District investments to those where the issuer is rated in one of the three highest rating categories by one or more nationally recognized organizations that rate such issuers. The District has deposits in COLOTRUST Plus+. COLOTRUST is rated AAAm by Standard & Poors.

The concentration of credit risk, or the risk of loss attributed to the magnitude of a government's investment in a single issuer, occurs when deposits are not diversified. District policy places no limit on the amount the District may invest in any one issuer; however, the District maintains general guidelines for investments to ensure proper diversification by security type and institution. All District investments are issued or explicitly guaranteed by securities of the U.S. government, or insured by PDPA, or are investments in mutual fund or external investment pools, and therefore are not subject to concentration of credit risk disclosure requirements.

Interest rate risk is the extent to which changes in interest rates will adversely affect the fair value of an investment. The District maintains an investment policy that limits investment maturities to three years as means of managing its exposure to fair value losses arising from increasing interest rates and to avoid undue concentration in any sector of the yield curve. Exceptions to this structure may be allowed where maturities can be structured to accommodate readily identifiable cash flows as approved by the Board.

The District was not subject to foreign currency risk as of December 31, 2022.

3. FAIR VALUES OF FINANCIAL INSTRUMENTS

The District has a number of financial instruments, including cash and equivalents, receivables, and accounts payable, none of which are held for trading purposes. The District estimates that the fair values of its financial instruments at December 31, 2022 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet.

4. CONTINGENCIES

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives represent that no claims have been asserted against the District and they are not aware of any un-asserted possible claims or litigation as of December 31, 2022.

5. RISK MANAGEMENT

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

District No. 1, as the operating 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.

District No. 1 pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage for the District. 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. During the year ended December 31, 2022, the Pool made no distributions to the District.

6. INTERFUND AND OPERATING TRANSFERS

During 2022, the District transferred $4,824 from the General Fund to the Road Reserve Fund to fund expenses of that fund prior to that fund beginning to collect its maintenance fee.

7. 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.

8. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2022:

	Balance 12/31/21	Additions	Deletions / Transfers	Balance 12/31/22
Governmental Type Activities:				
Capital assets not being depreciated:				
Construction in progress	15,623,277	$ 925,355	$ -	$ 16,548,632
Easements & ROW	202,109	-	-	202,109
Total capital assets not being depreciated	15,825,386	925,355	-	16,750,741
Capital assets being depreciated:				
Roads	2,029,247	-	-	2,029,247
Total capital assets being depreciated:	2,029,247	-	-	2,029,247
Accumulated depreciation:				
Roads	1,352,830	101,462	-	1,454,292
Total accumulated depreciation:	1,352,830	101,462	-	1,454,292
Net capital assets being depreciated	676,417	(101,462)	-	574,955
Government type assets, net	$ 16,501,803	$ 823,893	$ -	$ 17,325,696
Business Type Activities:				
Capital assets not being depreciated:				
Construction in progress	1,548,227	$ 738,987	$ -	$ 2,287,214
Total capital assets not being depreciated	1,548,227	738,987	-	2,287,214
Capital assets being depreciated:				
Utilities	202,121	-	-	202,121
Water system	7,806,951	50,858	-	7,857,809
Sewer system	3,411,274	31,000	-	3,442,274
Storm sewer	330,379	-	-	330,379
Total capital assets being depreciated:	11,750,725	81,858	-	11,832,583
Accumulated depreciation:				
Utilities	134,748	10,106	-	144,854
Water system	1,375,512	203,143	-	1,578,655
Sewer system	1,091,048	85,669	-	1,176,717
Storm sewer	293,669	22,025	-	315,694
Total accumulated depreciation:	2,894,977	320,943	-	3,215,920
Net capital assets being depreciated	8,855,748	(239,085)	-	8,616,663
Business type assets, net	$ 10,403,975	$ 499,902	$ -	$ 10,903,877

Depreciation expense is calculated using the straight-line method. Depreciation expense for 2022 was $101,462 for government type activities and $320,943 for business type activities.

9. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended December 31, 2022:

	Balance 12/31/21	Additions	Deletions	Balance 12/31/22	Current Portion
Developer advances:					
Capital - principal	$ 6,533,186	$ -	$ 6,017,433	$ 515,753	$ -
Capital - interest	1,448,568	78,244	-	1,526,812	-
	$ 7,981,754	$ 78,244	$ 6,017,433	$ 2,042,565	$ -

A description of the long-term obligations as of December 31, 2022, 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 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, 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. In 2022, the District repaid developer advances related to the preceding agreement of $6,017,434. At December 31, 2022, the District had $515,752 of developer advances payable under the MG FFAA, and $1,526,812 of accrued interest.

Debt Authorization
As of December 31, 2022, the District had remaining voted debt authorization of approximately $273,750,000. The District did not budget to issue new debt in 2023.

10. 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 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 MG Land for the reimbursement of Outstanding Reimbursement Obligation (as defined therein) of the District, consistently with the Termination of the District No. 2 MGL FFAA (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 OROIFFAA, 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 OROIFFAA 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 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.

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.

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 with District No. 6

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.

Intergovernmental Agreement Regarding Assignment of Revenues with District No. 5

In anticipation of Spring Valley Metropolitan District No. 5 ("District No. 5") issuing the District No. 5 Bonds, the District entered into an Intergovernmental Agreement Regarding Assignment of Revenues with District No. 5 dated June 16, 2022, pursuant to which the District and District No. 5 agreed that revenues pledged to secure payment of the District No. 5 Bonds will include the Capital Component of the District No. 1 Tap Fee and the Facilities Fees. However, District No. 5 did not move forward with the issuance of any bonds and has elected statutory inactive status.

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.

11. STATUTORY COMPLIANCE

TABOR Amendment - Revenue and Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations, which apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extensions of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

Except for financing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of spending (excluding bonded debt service). The required reserve at December 31, 2022 is $4,823.

During formation of the District, its voters approved the removal of the application of certain requirements of TABOR to the District.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

12. SEGMENT INFORMATION

The District's enterprise fund provides “water and sewer services”. Segment information for the year ended December 31, 2022 was as follows:

	Water	Sewer	Total
Operating revenue	$ 1,156,320	$ 344,285	$ 1,500,604
Depreciation	219,208	101,735	320,943
Net operating income (loss)	558,340	(226,454)	331,886
Total capital assets	7,458,737	3,445,140	10,903,877

REQUIRED SUPPLEMENTARY INFORMATION

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, 2022

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES			
Transfer from District No. 2	$ 121,896	$ 121,896	$ -
Transfer from District No. 3	20,069	20,069	-
Transfer from District No. 4	76	76	-
Transfer from District No. 6	9	9	-
Interest Income	-	3,957	3,957
Total revenues	142,050	146,007	3,957
EXPENDITURES			
Current operating			
Accounting and audit	69,200	36,360	32,840
District management	47,000	56,035	(9,035)
Election	2,500	705	1,795
Legal	82,000	64,441	17,559
Miscellaneous	1,500	3,239	(1,739)
Repairs and maintenance	3,000	-	3,000
Emergency reserve	7,500	-	7,500
Contingency	25,000	-	25,000
Total expenditures	237,700	160,780	76,920
Excess (deficiency) of revenues over expenditures	(95,650)	(14,773)	80,877
OTHER FINANCING SOURCES (USES)			
Transfers out	-	(4,824)	(4,824)
Total other financial sources (uses)	-	(4,824)	(4,824)
Net change in fund balance	(95,650)	(19,597)	76,053
Fund balance, beginning of year	247,210	290,178	42,968
Fund balance, end of year	$ 151,560	$ 270,581	$ 119,021

ADDITIONAL SUPPLEMENTAL INFORMATION

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - ROAD RESERVE FUND

For the Year Ended December 31, 2022

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES			
Road reserve fees	$ 277,500	$ -	$ (277,500)
Total revenues	277,500	-	(277,500)
EXPENDITURES			
Current operating			
Snow plowing	5,000	4,824	176
Roads repairs	25,000	-	25,000
Contingency	100,000	-	100,000
Total expenditures	130,000	4,824	125,176
Excess (deficiency) of revenues over expenditures	147,500	(4,824)	(152,324)
Other financing sources (uses)			
Transfers in	-	4,824	4,824
Total other financial sources (uses)	-	4,824	4,824
Net change in fund balance	147,500	-	(147,500)
Fund balance, beginning of year	(31,000)	-	31,000
Fund balance, end of year	$ 116,500	$ -	$ (116,500)

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CAPITAL IMPROVEMENT FUND
For the Year Ended December 31, 2022

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES			
Transfer from District No. 2	$ 597,001	$ 421,961	$ (175,040)
Transfer from District No. 3	-	-	-
Transfer from District No. 4	-	-	-
Transfer from District No. 6	9,653,126	5,769,711	(3,883,415)
Road impact contribution and other	-	30,876	30,876
Interest Income	-	22,170	22,170
Total revenues	10,250,127	6,244,718	(4,005,409)
EXPENDITURES			
Capital outlay			
Accounting and audit	20,000	13,554	6,446
Engineering	100,000	151,520	(51,520)
Legal	75,000	66,796	8,204
Construction, repairs, and other capital	800,000	1,494,279	(694,279)
Total capital outlay	995,000	1,726,149	(731,149)
Debt service			
Repay developer advances - principal	-	6,017,434	(6,017,434)
Repay developer advances - interest	-	-	-
Total debt service	-	6,017,434	(6,017,434)
Contingency	9,458,126	-	9,458,126
Total expenditures	10,453,126	7,743,583	2,709,543
Excess (deficiency) of revenues over expenditures	(202,999)	(1,498,865)	(1,295,866)
OTHER FINANCING SOURCES (USES)			
Developer advance	202,999	-	(202,999)
Net change in fund balance	-	(1,498,865)	(1,498,865)
Fund balance, beginning of year	-	3,935,530	3,935,530
Fund balance, end of year	$ -	$ 2,436,665	$ 2,436,665

SPRING VALLEY METROPOLITAN DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - PROPRIETARY FUND
For the Year Ended December 31, 2022

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES			
Water service charges	$ 450,000	$ 472,900	$ 22,900
Sewer service charges	310,000	330,506	20,506
Hydrant water usage fees	7,500	656,870	649,370
Transfer fees	-	17,566	17,566
Penalty fees - water and sewer	12,000	10,395	(1,605)
Meter fees	-	12,771	12,771
Miscellaneous income	5,000	(404)	(5,404)
Interest income	500	20,649	20,149
Reserve lots	247,500	-	(247,500)
Total revenues	1,032,500	1,521,253	488,753
EXPENDITURES			
Accounting	17,500	21,759	(4,259)
Bank fees	3,500	3,493	7
Capital outlay	542,750	24,793	517,957
Chemicals and testing	40,202	26,577	13,625
Contingency	100,000	-	100,000
Engineering	15,000	793	14,207
Facility maintenance and repairs	85,000	113,276	(28,276)
Insurance	45,000	27,450	17,550
Jetting	28,000	-	28,000
Legal	20,000	-	20,000
Management	39,000	60,832	(21,832)
Meter installation	15,000	24,127	(9,127)
Miscellaneous	7,000	7,181	(181)
Sludge hauling	60,000	90,232	(30,232)
Utilities	190,000	315,923	(125,923)
Water and sewer operations	180,000	151,390	28,610
Total expenditures	1,387,952	867,826	520,126
Net income (loss) Non-GAAP basis	$ (355,452)	$ 653,427	$ 1,008,879
Reconciliation to GAAP basis of accounting			
Depreciation and amortization		$ (320,943)	
Transfer in of capital assets		800,794	
Capitalized expenditures		20,051	
Net income (loss) GAAP basis		$ 1,153,329	