

**Spring Valley Metropolitan District No. 1
Elbert County, Colorado**

FINANCIAL STATEMENTS

December 31, 2023

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, the 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District as of December 31, 2023, and the respective changes in financial position and, where applicable cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 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. 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 judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, 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 to 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 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 supplementary information as identified in the table of contents is presented for the purposes of additional analysis and legal compliance and is 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Fiscal Focus Partners, LLC

Arvada, Colorado
September 27, 2024

BASIC FINANCIAL STATEMENTS

Spring Valley Metropolitan District No. 1

STATEMENT OF NET POSITION

December 31, 2023

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 1,410,445	\$ 1,523,962	\$ 2,934,407
Cash and investments - Restricted	4,900	-	4,900
Accounts receivable	-	118,003	118,003
Prepaid expense	-	35,149	35,149
Due from other governments	597,650	-	597,650
Capital assets, net	20,956,621	16,166,088	37,122,709
Total assets	22,969,616	17,843,202	40,812,818
LIABILITIES			
Accounts payable	36,292	416,775	453,067
Deposits	-	1,500	1,500
Due to other governments	413	-	413
Noncurrent liabilities			
Due in more than one year	2,465,603	-	2,465,603
Total liabilities	2,502,308	418,275	2,920,583
NET POSITION			
Net investment in capital assets	18,491,018	16,166,088	34,657,106
Restricted for:			
Emergency reserves	4,900	-	4,900
Road repair and replacement	261,017	-	261,017
Unrestricted	1,710,373	1,258,839	2,969,212
Total net position	\$ 20,467,308	\$ 17,424,927	\$ 37,892,235

The accompanying 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, 2023

<u>Functions/Programs</u>	<u>Program Revenue</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 271,563	\$ -	\$ 625,536	\$ 4,449,588	\$ 4,803,561	\$ -	\$ 4,803,561
Interest on long-term debt and related costs	61,265	-	-	-	(61,265)	-	(61,265)
Transfer of capital assets	2,323,846	-	-	-	(2,323,846)	-	(2,323,846)
Total governmental activities	\$ 2,656,674	\$ -	\$ 625,536	\$ 4,449,588	2,418,450	-	2,418,450
Business-type Activities:							
Water and sewer activity enterprise	\$ 2,153,266	\$ 1,015,516	\$ 132,500	\$ 5,773,049	-	4,767,799	4,767,799
Total business-type activities	\$ 2,153,266	\$ 1,015,516	\$ 132,500	\$ 5,773,049	-	4,767,799	4,767,799
Primary government total							
General revenues:							
Investment income					58,480	92,253	150,733
Insurance claim					-	252,690	252,690
Total general revenues and transfers					58,480	344,943	403,423
Change in net position					2,476,930	5,112,742	7,589,672
Net position - beginning					17,990,378	12,312,185	30,302,563
Net position - ending					\$ 20,467,308	\$ 17,424,927	\$ 37,892,235

The accompanying Notes to the Financial Statements are an integral part of these statements.

Spring Valley Metropolitan District No. 1

**BALANCE SHEET
GOVERNMENTAL FUNDS**

12/31/2023

	<u>General Fund</u>	<u>Road Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 288,600	\$ 261,017	\$ 860,828	\$ 1,410,445
Cash and investments - Restricted	4,900	-	-	4,900
Due from other governments	-	-	597,650	597,650
Total assets	<u>\$ 293,500</u>	<u>\$ 261,017</u>	<u>\$ 1,458,478</u>	<u>\$ 2,012,995</u>
LIABILITIES				
Accounts and retainage payable	\$ -	\$ -	\$ 36,292	\$ 36,292
Due to other governments	413	-	-	413
Total liabilities	<u>413</u>	<u>-</u>	<u>36,292</u>	<u>36,705</u>
FUND BALANCES				
Assigned for:				
Capital projects	-	-	1,422,186	1,422,186
Restricted for:				
Road repair and replacement	-	261,017	-	261,017
Emergencies	4,900	-	-	4,900
Unassigned	288,187	-	-	288,187
Total fund balances	<u>293,087</u>	<u>261,017</u>	<u>1,422,186</u>	<u>1,976,290</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 293,500</u>	<u>\$ 261,017</u>	<u>\$ 1,458,478</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.

Capital assets, net 20,956,621

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

Developer advance payable (877,526)

Accrued interest on developer advance (1,588,077)

Net position of governmental activities \$ 20,467,308

The accompanying 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, 2023

	<u>General Fund</u>	<u>Road Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Intergovernmental revenue	\$ 151,261	\$ -	\$ 3,067,127	\$ 3,218,388
Road reserve fees	-	268,000	-	268,000
Investment income	11,249	5,832	41,399	58,480
Other income	-	-	206,275	206,275
Total revenues	<u>162,510</u>	<u>273,832</u>	<u>3,314,801</u>	<u>3,751,143</u>
Expenditures				
Current				
Accounting	24,498	-	7,670	32,168
Audit	6,500	-	-	6,500
Election	1,250	-	-	1,250
Engineering	-	-	138,269	138,269
Legal services	64,082	-	37,107	101,189
Management	41,741	-	-	41,741
Miscellaneous	1,933	-	-	1,933
Road repairs	-	3,500	-	3,500
Snow removal	-	9,315	-	9,315
Capital outlay	-	-	4,508,008	4,508,008
Total expenditures	<u>140,004</u>	<u>12,815</u>	<u>4,691,054</u>	<u>4,843,873</u>
Excess of revenues over (under) expenditures	<u>22,506</u>	<u>261,017</u>	<u>(1,376,253)</u>	<u>(1,092,730)</u>
Other financing sources (uses)				
Developer advance	-	-	861,774	861,774
Developer advance repayment	-	-	(500,000)	(500,000)
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>361,774</u>	<u>361,774</u>
Net change in fund balances	22,506	261,017	(1,014,479)	(730,956)
Fund balances - beginning	<u>270,581</u>	<u>-</u>	<u>2,436,665</u>	<u>2,707,246</u>
Fund balances - ending	<u>\$ 293,087</u>	<u>\$ 261,017</u>	<u>\$ 1,422,186</u>	<u>\$ 1,976,290</u>

The accompanying 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, 2023

Net change in fund balances - governmental funds \$ (730,956)

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

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.

Depreciation	(118,744)
Capital outlay	4,691,054
Capital assets transferred from District No. 4	1,382,461
Capital assets transferred from governmental activities to proprietary fund	(2,323,846)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Repayment of developer advance	500,000
Developer advance received	(861,774)
Accrued interest on Developer advance payable - change	(61,265)
	<hr/>

Change in net position of governmental activities \$ 2,476,930

The accompanying 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
BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2023

	<u>Budget Amounts</u> <u>Original and</u> <u>Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES			
Transfer from Spring Valley Metropolitan District No. 2	\$ 122,790	\$ 122,377	\$ (413)
Transfer from Spring Valley Metropolitan District No. 3	28,571	28,571	-
Transfer from Spring Valley Metropolitan District No. 4	54	54	-
Transfer from Spring Valley Metropolitan District No. 6	259	259	-
Investment income	-	11,249	11,249
Total revenues	<u>151,674</u>	<u>162,510</u>	<u>10,836</u>
EXPENDITURES			
Accounting	40,000	24,498	15,502
Audit	6,500	6,500	-
Election	2,500	1,250	1,250
Legal	80,000	64,082	15,918
Management	65,000	41,741	23,259
Miscellaneous	3,750	1,933	1,817
Emergency reserve	7,500	-	7,500
Contingency	25,000	-	25,000
Total expenditures	<u>230,250</u>	<u>140,004</u>	<u>90,246</u>
Change in fund balance	(78,576)	22,506	101,082
Fund balances - beginning	<u>249,578</u>	<u>270,581</u>	<u>21,003</u>
Fund balances - ending	<u>\$ 171,002</u>	<u>\$ 293,087</u>	<u>\$ 122,085</u>

The accompanying 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, 2023

ASSETS

Current assets

Cash and investments	\$ 1,523,962
Accounts receivable	118,003
Prepaid expenses	35,149
Total current assets	<u>1,677,114</u>

Capital assets

16,166,088

Total assets

17,843,202

LIABILITIES

Current liabilities

Accounts payable	416,775
Deposits	1,500
Total current liabilities	<u>418,275</u>

Total liabilities

418,275

NET POSITION

Net investment in capital assets	16,166,088
Unrestricted	1,258,839
Total net position	<u><u>\$ 17,424,927</u></u>

The accompanying 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 NET POSITION
PROPRIETARY FUND

For the Year Ended December 31, 2023

OPERATING REVENUES	
Water service charges	\$ 466,516
Sewer service charges	400,844
Hydrant water usage fees	96,128
Transfer fees	9,000
Meter fees	21,449
Penalties	21,579
Total operating revenues	<u>1,015,516</u>
OPERATING EXPENSES	
Accounting	24,179
Bank fees	964
Chemicals and testing	31,050
Depreciation and amortization	412,977
Engineering	88
Facility maintenance and repairs	287,829
Insurance	35,107
Jetting	27,203
Legal	19,855
Locates	69,727
Major repairs and replacements	376,115
Management and billing	108,827
Meter installation	64,463
Miscellaneous	3,750
Sludge hauling	138,587
Utilities	176,516
Water and sewer general operations	100,936
Total operating expenses	<u>1,878,173</u>
Income (loss) from operations	<u>(862,657)</u>
NONOPERATING REVENUES (EXPENSES)	
Reserve fees	132,500
System development fees	97,860
Investment income	92,253
Insurance claim - flood damage	252,690
Flood damage repairs	(275,093)
Transfer of capital assets - government fund	2,323,846
Transfer of capital assets - District No. 4	3,351,343
Total nonoperating revenues (expenses)	<u>5,975,399</u>
Change in net position	5,112,742
NET POSITION - BEGINNING	<u>12,312,185</u>
NET POSITION - ENDING	<u><u>\$17,424,927</u></u>

The accompanying Notes to the Financial Statements are an integral part of these statements.

Spring Valley Metropolitan District No. 1

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 968,184
Payments to suppliers for goods and services	(1,231,037)
Net cash provided (used) by operating activities	<u>(262,853)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Reserve fees	132,500
System development fees	97,860
Flood damage	(275,093)
Insurance claimn proceeds	252,690
Net cash provided (used) by capital and related financing activities	<u>207,957</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	92,253
Net cash provided (used) by investing activities	<u>92,253</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

37,357

CASH AND CASH EQUIVALENTS - beginning of year

1,486,605

CASH AND CASH EQUIVALENTS - end of year

\$ 1,523,962

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

Income (loss) from operations	\$ (862,657)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	412,977
Changes in assets and liabilities	
(Increase) decrease in:	
Accounts receivable	(48,833)
Prepaid expenses	(34,449)
Increase (decrease) in:	
Accounts payable	268,609
Deposits	1,500
Total adjustments	<u>599,804</u>
Net cash provided (used) by operating activities	<u><u>\$ (262,853)</u></u>

Noncash capital and related financing activities:

Capital assets transferred from governmental activities	\$ 2,323,846
Capital assets transferred from District No. 4	<u><u>\$ 3,351,343</u></u>

The accompanying Notes to the Financial Statements are an integral part of these statements.

Spring Valley Metropolitan District No.1

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 – DEFINITION OF 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 for providing 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and statement of activities. These financial statements include all of the activities of the

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial resources of the District. The difference between the assets, deferred outflows of resources, 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 customer 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 the governmental funds. Major individual governmental 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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital outlay are shown as increases in assets and repayment of developer advances are recorded as a reduction in liabilities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 revenue to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, specific ownership taxes, and intergovernmental revenues. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another 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.

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities and equipment.

The District reports the following major proprietary fund:

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.

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

Pooled cash and investments

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

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of three months or less from the date of acquisition to be cash equivalents.

Accounts receivable, allowance for doubtful accounts

User fees and system development fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements.

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

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

Budgetary information

In accordance with the Colorado State Budget Law, the District's Board of Directors (the Board) holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year end. The Board 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

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

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

Fund balances

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

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

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

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned fund balance – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

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

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

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

Capital Assets

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

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

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Roads	20 years
Water and sewer infrastructure	20-40 years
Storm sewer	15 years
Utilities	20 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements that will be dedicated to other governmental entities are not depreciated.

Deferred inflow of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or 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 government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, deferred property tax revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Spring Valley Metropolitan District No. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

NOTE 3 – CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments	\$ 2,934,407
Cash and investments - Restricted	4,900
Total cash and investments	<u><u>\$ 2,939,307</u></u>

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

Deposits with financial institutions	\$ 294,354
Investments	2,644,953
Total cash and investments	<u><u>\$ 2,939,307</u></u>

Deposits with Financial Institutions

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

At December 31, 2023, the District's cash deposits had a bank balance of \$294,887 and carrying balance of \$294,354. Amounts in excess of FDIC limits were fully collateralized.

Investments

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments.

The District generally limits its investment to those which are believed to have minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to

Spring Valley Metropolitan District No. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to three or five years or less (depending upon the type of investment) unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

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

At December 31, 2023, the District had the following investment:

Investment	Maturity	Amount
Colorado Liquid Assets Trust (Colotrust)	Weighted average under 60 days	<u>\$2,644,953</u>
Total investments		<u><u>\$2,644,953</u></u>

COLOTRUST

The District invested 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 offers shares in three portfolios, COLOTRUST PRIME (PRIME), COLOTRUST PLUS+ (PLUS), and COLOTRUST EDGE (EDGE). The District's investment at December 31, 2023 is in PLUS. The Trust operates similarly to a money market fund and each share of PRIME and PLUS is equal in value to \$1.00, and EDGE shares are approximately equal to \$10.00. Each portfolio may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. PLUS and Edge may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated

Spring Valley Metropolitan District No. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. PRIME and PLUS are rated AAAM by Standard & Poor's, and EDGE is rated AAAF/S1 by Fitch Ratings. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

NOTE 4 – CAPITAL ASSETS

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

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

	Balance at December 31, 2022	Additions	Deletions	Balance at December 31, 2023
Governmental Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 16,548,632	\$ 2,367,208	\$ -	\$ 18,915,840
Easements and ROW	202,109	-	-	202,109
Total capital assets not being depreciated	16,750,741	2,367,208	-	19,117,949
Capital assets, being depreciated:				
Roads	2,029,247	1,382,461	-	3,411,708
Total capital assets being depreciated	2,029,247	1,382,461	-	3,411,708
Less accumulated depreciation for:				
Roads	1,454,292	118,744	-	1,573,036
Net capital assets being depreciated	574,955	(1,263,717)	-	1,838,672
Governmental activities capital assets, net	\$ 17,325,696	\$ 3,630,925	\$ -	\$ 20,956,621
Business-Type Activities				
Capital assets not being depreciated:				
Construction in progress	\$ 2,287,214	\$ 1,444,273	\$ (1,524,914)	2,206,573
Capital assets being depreciated:				
Utilities	202,121	-	-	202,121
Water system	7,857,809	2,051,628	-	9,909,437
Sewer system	3,442,274	3,652,567	-	7,094,841
Storm sewer	330,379	51,635	-	382,014
Total capital assets being depreciated	11,832,583	5,755,830	-	17,588,413
Less accumulated depreciation for:				
Utilities	144,854	10,106	-	154,960
Water system	1,578,655	229,425	-	1,808,080
Sewer system	1,176,718	150,775	-	1,327,493
Storm sewer	315,694	22,671	-	338,365
Total accumulated depreciation	3,215,921	412,977	-	3,628,898
Net capital assets being depreciated	8,616,662	5,342,853	-	13,959,515
Business-type activities capital assets, net	\$ 10,903,876	\$ 6,787,126	\$ (1,524,914)	\$ 16,166,088
Total Net Capital Assets	\$ 28,229,572	\$ 10,418,051	\$ (1,524,914)	\$ 37,122,709

Capital assets were paid for, acquired by, or reimbursed by the District and a portion of the assets will be conveyed to other governmental entities. The costs of all capital assets transferred to other governmental entities will be removed from the District's financial records.

Depreciation expense was charged to District functions as follows:

General government	\$118,744
Water and sewer	\$421,978

Spring Valley Metropolitan District No. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

NOTE 5 – LONG-TERM OBLIGATIONS

Following is an analysis of changes in long-term obligations for the year ended December 31, 2023:

	Balance at December 31, 2022	Additions	Reductions	Balance at December 31, 2023	Due Within One Year
Developer advances:					
Facilities Funding and Acquisition Agreement	\$ 515,752	\$ 861,774	\$ 500,000	\$ 877,526	\$ -
Accrued interest	1,526,812	61,265	-	1,588,077	-
Total developer advances	<u>\$ 2,042,564</u>	<u>\$ 923,039</u>	<u>\$ 500,000</u>	<u>\$ 2,465,603</u>	<u>\$ -</u>

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 (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 8).

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 \$54,532 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).

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

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. At December 31, 2023, the District had \$877,526 of developer advances payable under the MG FFAA, and \$1,588,077 of accrued interest.

Debt Authorization

As of December 31, 2023 the District had remaining voted debt authorization of approximately \$273,750,000. The District's Service Plan limits total general obligation debt to \$35,000,000. The aggregate debt limit in Service Plans of the District and District Nos. 2, 3, 4, 5 and 6 is \$250,000,000, of which \$184,479,000 remains at December 31, 2023. The District did not budget new debt issuances for 2024.

Spring Valley Metropolitan District No. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

NOTE 6 – NET POSITION

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, developer advances, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2023, the District had net investment in capital assets in the amount of \$29,982,475.

Restricted assets include net position that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. At December 31, 2023, the District had restricted net position of \$4,900 for Emergency Reserves.

The District had unrestricted net position of \$3,230,229 at December 31, 2023.

NOTE 7 – RELATED PARTIES

As of December 31, 2023, three of the four occupied positions on the Board of Directors were held by Developer representatives. Such Board members may have potential conflicts of interest with respect to actions taken in their capacity as Board members. Disclosure of any potential conflicts of interest is made in accordance with Colorado law, in advance of each Board meeting.

NOTE 8 – 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.

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

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

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

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 proceeds 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

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

Obligation (as defined therein) of the District, consistently with the Termination of the District No. 2 MGL FFM (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 districts 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 "OROIFM"). Pursuant to the OROIFFM, 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 FFM (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 OROIFFM up to the Shortfall Amount (as defined therein). Further, District Nos. 3-6 expressed their assent to District No. 1 entering into the OROIFM 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 OROIFM, 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 will 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.

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

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 "Golf Club Party"). In accordance therewith, and concurrent with the approval of the FFM 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 Golf 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 was 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

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

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").

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

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 (continued)

December 31, 2023

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.

Spring Valley Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

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 9 – RISK MANAGEMENT

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

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

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

NOTE 10 – TAX, SPENDING AND DEBT LIMITATIONS

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local

Spring Valley Metropolitan District No. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

On November 6, 2001, a majority of the District's electors authorized the District to collect and spend or retain in a reserve, all currently levied taxes and fees of the District without regard to any limitations under TABOR.

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

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SUPPLEMENTARY INFORMATION

Spring Valley Metropolitan District No. 1

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ROAD RESERVE FUND**

For the Year Ended December 31, 2023

	<u>Budget Amounts</u>		<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Road reserve fees - District No. 2	\$ 62,500	\$ -	\$ (62,500)
Road reserve fees - District No. 4	120,000	268,000	148,000
Road reserve fees - District No. 6	100,000	-	(100,000)
Investment income	-	5,832	5,832
Total revenues	<u>282,500</u>	<u>273,832</u>	<u>(8,668)</u>
EXPENDITURES			
Road repairs	-	3,500	(3,500)
Snow removal	5,000	9,315	(4,315)
Contingency	100,000	-	100,000
Total expenditures	<u>105,000</u>	<u>12,815</u>	<u>92,185</u>
Net change in fund balances	<u>177,500</u>	<u>261,017</u>	<u>83,517</u>
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ 177,500</u>	<u>\$ 261,017</u>	<u>\$ 83,517</u>

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, 2023

	Budget Amounts		Variance with Final Budget - Positive (Negative)
	Original and Final	Actual Amounts	
REVENUES			
Transfer from Spring Valley Metropolitan District No. 2	\$ -	\$ 72,067	\$ 72,067
Transfer from Spring Valley Metropolitan District No. 6	7,834,036	2,995,060	(4,838,976)
Investment income	-	41,399	41,399
Other income	-	206,275	206,275
Total revenues	7,834,036	3,314,801	(4,519,235)
EXPENDITURES			
Accounting	21,600	7,670	13,930
Engineering	129,600	138,269	(8,669)
Legal	81,000	37,107	43,893
Capital Outlay	4,585,000	4,508,008	76,992
Contingency	4,743,795	-	4,743,795
Total expenditures	9,560,995	4,691,054	4,869,941
Excess of expenditures over (under) revenues	(1,726,959)	(1,376,253)	350,706
OTHER FINANCING SOURCES (USES)			
Developer advance	-	861,774	861,774
Developer advance repayment	-	(500,000)	(500,000)
Total other financing sources (uses)	-	361,774	361,774
Net change in fund balances	(1,726,959)	(1,014,479)	712,480
Fund balances - beginning	1,726,959	2,436,665	709,706
Fund balances - ending	\$ -	\$ 1,422,186	\$ 1,422,186

Spring Valley Metropolitan District No. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGETARY BASIS
PROPRIETARY FUND - BUDGET AND ACTUAL
For the year ended December 31, 2023

	Budget Amounts - Original	Budget Amounts - Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Water service charges	\$ 525,000	\$ 525,000	\$ 466,516	\$ (58,484)
Sewer service charges	360,000	360,000	400,844	40,844
Hydrant water usage fees	100,000	100,000	96,128	(3,872)
Transfer fees	-	-	9,000	9,000
Meter fees	56,000	56,000	21,449	(34,551)
Penalties	12,000	12,000	21,579	9,579
Reserve fees	120,000	120,000	132,500	12,500
System development fees	-	-	97,860	97,860
Investment income	30,000	30,000	92,253	62,253
Insurance claim - flood damage	5,000	255,000	252,690	(2,310)
Total revenues	<u>1,208,000</u>	<u>1,458,000</u>	<u>1,590,819</u>	<u>132,819</u>
EXPENDITURES				
Accounting	24,000	24,000	24,179	(179)
Bank fees	3,500	3,500	964	2,536
Capital outlay / major repairs and replacement	735,000	735,000	376,115	358,885
Chemicals and testing	54,272	54,272	31,050	23,222
Engineering	5,400	5,400	88	5,312
Facility maintenance and flood repairs	80,000	480,000	562,922	(82,922)
Insurance	31,671	31,671	35,107	(3,436)
Jetting	30,800	30,800	27,203	3,597
Legal	5,400	5,400	19,855	(14,455)
Locates	10,000	10,000	69,727	(59,727)
Management and billing	48,000	48,000	108,827	(60,827)
Meter installation	63,000	63,000	64,463	(1,463)
Miscellaneous	7,200	7,200	3,750	3,450
Sludge hauling	95,000	95,000	138,587	(43,587)
Utilities	250,000	250,000	176,516	73,484
Water and sewer general operations	197,798	197,798	100,936	96,862
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>1,741,041</u>	<u>2,141,041</u>	<u>1,740,289</u>	<u>400,752</u>
Excess (Deficit) of revenues over (Under) expenditures	<u>(533,041)</u>	<u>(683,041)</u>	<u>(149,470)</u>	<u>533,571</u>
FUNDS AVAILABLE - Beginning of year	<u>1,253,139</u>	<u>1,408,308</u>	<u>1,408,308</u>	<u>-</u>
FUNDS AVAILABLE - End of year	<u>\$ 720,098</u>	<u>\$ 725,267</u>	<u>\$ 1,258,838</u>	<u>\$ 533,571</u>

**RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

Revenues (budgetary basis)	\$ 1,590,819
Transfer of capital assets from government fund	2,323,846
Transfer of capital assets from District No. 4	3,351,343
Total revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>7,266,008</u>
Expenditures (budgetary basis)	1,740,289
Depreciation and amortization	412,977
Total expenses per Statement of Revenues, Expenses and Changes in Net Position	<u>2,153,266</u>
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	<u>\$ 5,112,742</u>