

Spring Valley Metropolitan District No. 1

Financial Statements

Year Ended December 31, 2020

with

Independent Auditor's Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	1
<u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Funds	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Net Position - Proprietary Fund	8
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	9
Statement of Cash Flows - Proprietary Fund	10
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	11
Notes to Financial Statements	12
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	31
Schedule of Revenues and Expenditures - Budget and Actual - Proprietary Fund	32



REPORT OF INDEPENDENT AUDITORS

July 22, 2021

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Spring Valley Metropolitan District No. 1 (the "District"), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the District as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

July 22, 2021
Spring Valley Metropolitan District No. 1
Page 2

Other Matters

Required Supplementary Information

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

Other 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 comparison schedules for the capital improvement fund and the debt service fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules for the capital projects fund and the proprietary fund are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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, these schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

 & Co., LLC

Spring Valley Metropolitan District No. 1

STATEMENT OF NET POSITION

December 31, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and investments	\$ -	\$ 987,644	\$ 987,644
Accounts receivable - customer	-	64,530	64,530
Prepaid expenses	-	21,031	21,031
Due from Districts No's 2-4	263,267	-	263,267
Total Current Assets	263,267	1,073,205	1,336,472
CAPITAL ASSETS	5,109,389	5,428,160	10,537,549
Total Assets	5,372,656	6,501,365	11,874,021
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	-	348,022	348,022
Retainage payable	25,011	-	25,011
Due to (from) other funds	(104,397)	104,397	-
Developer advances payable - accrued interest	1,348,648	-	1,348,648
Developer advances payable - capital	1,083,186	-	1,083,186
Total Current Liabilities	2,352,448	452,419	2,804,867
NET POSITION			
Net investment in capital assets	4,026,203	5,428,160	9,454,363
Restricted for:			
Emergency reserve	6,730	-	6,730
Unrestricted	(1,012,725)	620,786	(391,939)
Total Net Position	<u>\$ 3,020,208</u>	<u>\$ 6,048,946</u>	<u>\$ 9,069,154</u>

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

Spring Valley Metropolitan District No. 1

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Primary Government:					
Governmental Activities:					
General government	\$ 325,779	\$ -	\$ (325,779)	\$ -	\$ (325,779)
Interest and related costs on long-term debt	132,978	-	(132,978)	-	(132,978)
Total Governmental Activities	458,757	-	(458,757)	-	(458,757)
Business-type Activities:					
Water - operations	283,162	501,320	-	218,158	218,158
Sewer - operations	376,645	279,837	-	(96,809)	(96,809)
Water - depreciation	118,360	-	-	(118,360)	(118,360)
Sewer - depreciation	101,348	-	-	(101,348)	(101,348)
Total Business-type Activities	879,515	781,156	-	(98,359)	(98,359)
Total	\$ 1,338,272	\$ 781,156	(458,757)	(98,359)	(557,116)
General Revenues:					
Transfer from District No. 2			346,327	-	346,327
Transfer from District No. 3			3,937,599	-	3,937,599
Transfer from District No. 4			2,380,597	-	2,380,597
Interest income			-	413	413
Total General Revenues			6,664,523	413	6,664,936
Change in Net Position			6,205,766	(97,946)	6,107,820
Net Position - Beginning			(3,185,558)	6,146,892	2,961,334
Net Position - Ending			\$ 3,020,208	\$ 6,048,946	\$ 9,069,154

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

Spring Valley Metropolitan District No. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2020

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Due from Districts No's 2-4	\$ 68,220	\$ 195,047	\$ 263,267
Due from other funds	274,433		274,433
Total Assets	\$ 342,653	\$ 195,047	\$ 537,700
LIABILITIES			
Due to other funds	\$ -	\$ 170,036	\$ 170,036
Retainage payable	-	25,011	25,011
Total Liabilities	-	195,047	195,047
FUND BALANCES:			
Restricted:			
Emergencies	6,730	-	6,730
Unassigned	335,923	-	335,923
Total Fund Balance	342,653	-	342,653
Total Liabilities and Fund Balances	\$ 342,653	\$ 195,047	

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	5,109,389
--	-----------

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	(1,083,186)
Developer advances interest payable	(1,348,648)

Net Position of Governmental Activities	\$ 3,020,208
---	--------------

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

Spring Valley Metropolitan District No. 1

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

For the Year Ended December 31, 2020

	General	Capital Projects	Total
REVENUES			
Transfer from District No. 2	\$ 130,000	\$ 216,327	\$ 346,327
Transfer from District No. 3	1,086	3,936,513	3,937,599
Transfer from District No. 4	642	2,379,955	2,380,597
Total Revenues	131,728	6,532,795	6,664,523
EXPENDITURES			
Current Operating			
Accounting and audit	86,841	-	86,841
District management	37,462	-	37,462
Election	8,541	-	8,541
Insurance	126	-	126
Legal	90,065	-	90,065
Miscellaneous	822	-	822
Snow plowing	460	-	460
Capital outlay	-	3,810,770	3,810,770
Debt Service			
Repay developer advances - principal	-	1,136,825	1,136,825
Repay developer advances - interest	-	1,370,322	1,370,322
Total Expenditures	224,317	6,317,917	6,542,234
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(92,589)	214,878	122,289
OTHER FINANCING SOURCES (USES)			
Transfers in	214,878	-	214,878
Transfers out	-	(214,878)	(214,878)
Total Other Financing Sources (Uses)	214,878	(214,878)	-
NET CHANGE IN FUND BALANCES	122,289	-	122,289
FUND BALANCE, BEGINNING OF YEAR	220,364	-	220,364
FUND BALANCE, END OF YEAR	\$ 342,653	\$ -	\$ 342,653

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

Spring Valley Metropolitan District No. 1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended December 31, 2020

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

Net change in fund balances - Total governmental funds	\$	122,289
<p>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.</p>		
Depreciation expense		(101,462)
Capital outlay		3,810,770
<p>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.</p>		
Developer advance accrued interest payment		1,370,322
Developer advance principal payment		1,136,825
<p>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.</p>		
Accrued interest on developer advances payable		<u>(132,978)</u>
Change in Net Position of Governmental Activities	\$	<u>6,205,766</u>

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

Spring Valley Metropolitan District No. 1

Statement of Net Position

Proprietary Fund

December 31, 2020

ASSETS

CURRENT ASSETS

Cash and investments	\$ 987,644
Accounts receivable - customer	64,530
Prepaid expenses	<u>21,031</u>
Total Current Assets	1,073,205

CAPITAL ASSETS

Total Assets	<u>5,428,160</u> <u>\$ 6,501,365</u>
--------------	---

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 348,022
Due to other funds	<u>104,397</u>
Total Current Liabilities	<u>452,419</u>

Total Liabilities 452,419

NET POSITION

Net investment in capital assets	5,428,160
Unrestricted	<u>620,786</u>
Total Net Position	6,048,946

Total Liabilities and Net Position	<u><u>\$ 6,501,365</u></u>
------------------------------------	----------------------------

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

Spring Valley Metropolitan District No. 1

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Fund

For the year ended December 31, 2020

OPERATING REVENUES

Water service charges	\$ 445,762
Sewer service charges	270,769
Hydrant water usage fees	46,490
Transfer fees	16,650
Penalty fees - water and sewer	1,485
Total Operating Revenues	<u>781,156</u>

OPERATING EXPENSES

Accounting	7,915
Bank fees	3,595
Chemicals and testing	26,845
Depreciation and amortization	219,708
Engineering	13,515
Facility maintenance and repairs	171,821
Insurance	24,157
Jetting	40,419
Legal	19,241
Management	44,411
Meter installation	16,609
Miscellaneous	4,670
Sludge hauling	53,064
Utilities	143,208
Water and sewer operations	90,337
Total Operating Expenses	<u>879,515</u>

INCOME (LOSS) FROM OPERATIONS (98,359)

NONOPERATING REVENUES

Interest income	413
Total Nonoperating Revenues	<u>413</u>

NET INCOME (LOSS) - CHANGE IN NET POSITION (97,946)

NET POSITION - BEGINNING OF YEAR	<u>6,146,892</u>
NET POSITION - END OF YEAR	<u><u>\$ 6,048,946</u></u>

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

Spring Valley Metropolitan District No. 1

STATEMENT OF CASH FLOWS PROPRIETARY FUND

For the year ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 830,218
Payments to suppliers	(544,122)
Net Cash Provided (Used) by Operating Activities	286,096

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Payments related to acquisition of capital assets	(114,896)
Net Cash Provided (Required) by Capital and Related Financing Activities	(114,896)

CASH FLOWS FROM INVESTING ACTIVITIES:

Repayment received of advance to the general fund	687,930
Investment income	413
Net Cash Provided (Used) by Investing Activities	688,343

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	859,543
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	128,101
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 987,644

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

Net income (loss) from operations	\$ (98,359)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Depreciation	219,708
Changes in Assets and Liabilities:	
Accounts receivable	58,062
Prepaid expenses	(15,921)
Accounts payable, net of capital activities	131,606
Customer deposits	(9,000)
Net Adjustments	384,455
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 286,096

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Accounts payable incurred for capital additions	\$ 84,034
---	-----------

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

Spring Valley Metropolitan District No. 1

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

General Fund

For the year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Transfer from District No. 2	\$ -	\$ 77,334	\$ 130,000	\$ 52,666
Transfer from District No. 3	-	724	1,086	362
Transfer from District No. 4	-	428	642	214
Total Revenues	-	78,486	131,728	53,242
EXPENDITURES				
Current Operating				
Accounting and audit	3,500	58,000	86,841	(28,841)
Bank fees	-	500	-	500
District management	20,000	35,000	37,462	(2,462)
Election	1,000	7,500	8,541	(1,041)
Insurance	-	-	126	(126)
Legal	25,000	40,000	90,065	(50,065)
Miscellaneous	1,000	1,000	822	178
Snow plowing	-	-	460	
Contingency	240,017	148,517	-	148,517
Total Expenditures	290,517	290,517	224,317	66,660
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(290,517)	(212,031)	(92,589)	119,902
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	214,878	214,878
Total Other Financial Sources (Uses)	-	-	214,878	214,878
NET CHANGE IN FUND BALANCE				
	(290,517)	(212,031)	122,289	334,780
FUND BALANCE, BEGINNING OF YEAR				
	290,517	220,365	220,364	(1)
FUND BALANCE, END OF YEAR				
	\$ -	\$ 8,334	\$ 342,653	\$ 334,779

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2020

Note 1: Summary of Significant Accounting Policies

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

Definition of Reporting Entity

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

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

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

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

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

Basis of Presentation

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

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

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are transfers from Districts No. 2, No. 3, and No. 4. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

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

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

The District reports the following major proprietary funds:

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

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

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

Budgetary Accounting

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

In August 2020, the District amended its total appropriations in the Capital Projects Fund from \$6,019,250 to \$24,898,577.

Statement of Cash Flows

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

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2020, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

Interfund Balances

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

Estimates

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

Deferred Outflows/Inflows of Resources

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

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

Capital Assets

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

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2020

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

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

Property Taxes

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

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

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

Long-Term Obligations

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

Fund Equity

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2020

Nonspendable Fund Balance

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

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$6,730 of the General Fund balance has been restricted in compliance with this requirement.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

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

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

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

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

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

Note 2: Cash and Investments

As of December 31, 2020, cash and investments are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	<u>\$ 987,644</u>

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

Deposits with financial institutions	\$ 407,690
Investments - COLOTRUST	<u>579,954</u>
	<u>\$ 987,644</u>

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Investments

Investment Valuation

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2020

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

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST” or “the Trust”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The Trust operates similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ 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. Designated custodian banks provide safekeeping and depository services to the Trust. Substantially all securities owned by the Trust are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2020, the District had \$579,954 invested in COLOTRUST.

Credit Risk

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

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2020 follows:

	Balance 01-01-20	Additions	Deletions / Transfers	Balance 12-31-20
<u>Governmental Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 420,503	\$ 3,708,898	\$ -	\$ 4,129,401
Easements & ROW	100,237	101,872	-	202,109
Total capital assets not being depreciated	520,740	3,810,770	-	4,331,510
<u>Capital assets being depreciated:</u>				
Roads	2,029,247	-	-	2,029,247
Total capital assets being depreciated:	2,029,247	-	-	2,029,247
Accumulated depreciation:				
Roads	1,149,906	101,462	-	1,251,368
Total accumulated depreciation:	1,149,906	101,462	-	1,251,368
Net capital assets being depreciated	879,341	(101,462)	-	777,879
Government type assets, net	<u>\$ 1,400,081</u>	<u>\$ 3,709,308</u>	<u>\$ -</u>	<u>\$ 5,109,389</u>
<u>Business Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 30,894	\$ -	\$ 30,894	\$ -
Total capital assets not being depreciated	30,894	-	30,894	-
<u>Capital assets being depreciated:</u>				
Utilities	202,121	-	-	202,121
Water system	3,906,488	169,851	(30,894)	4,107,233
Sewer system	3,411,274	-	-	3,411,274
Storm sewer	330,379	-	-	330,379
Total capital assets being depreciated:	7,850,262	169,851	(30,894)	8,051,007
Accumulated depreciation:				
Utilities	114,536	10,106	-	124,642
Water system	1,118,500	102,295	-	1,220,795
Sewer system	920,484	85,282	-	1,005,766
Storm sewer	249,619	22,025	-	271,644
Total accumulated depreciation:	2,403,139	219,708	-	2,622,847
Net capital assets being depreciated	5,447,123	(49,857)	(30,894)	5,428,160
Business type assets, net	<u>\$ 5,478,017</u>	<u>\$ (49,857)</u>	<u>\$ -</u>	<u>\$ 5,428,160</u>

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

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

Governmental activities:	
Roads	\$ 101,462
Total depreciation expense - governmental activities	<u>\$ 101,462</u>
Business-type activities:	
Water and sewer fund	\$ 219,708
Total depreciation expense – business-type activities	<u>\$ 219,708</u>

Note 4: Long Term Debt

The following is an analysis of changes in long-term debt for the period ending December 31, 2020:

	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020	Current Portion
Developer advances:					
Capital - principal	\$ 2,220,011	\$ -	\$ 1,136,825	\$ 1,083,186	\$ -
Capital - interest	2,585,992	132,978	1,370,322	1,348,648	-
	<u>\$ 4,806,003</u>	<u>\$ 132,978</u>	<u>\$ 2,507,147</u>	<u>\$ 2,431,834</u>	<u>\$ -</u>

A description of the long-term obligations as of December 31, 2020, is as follows:

Facilities Funding and Acquisition Agreement

On November 30, 2006, the District and Running Creek Investments, LLC (“Developer”) entered into a Facilities Funding and Acquisition Agreement (“FFAA”) whereby the Developer agreed to advance up to \$10 million to the District to fund the construction of certain improvements as defined in the agreements. Alternatively, the Developer may construct the improvements, transfer the improvements to the District, and receive reimbursement by the District for the construction costs incurred. All advances made by the Developer under this agreement are to be reimbursed by the District with simple interest from the date of deposit in the District’s account, or the date that the cost is incurred by the Developer if the Developer constructs the improvements, until the advance is paid, at an interest rate of 8% per annum. Payments shall first be applied to accrued interest, then to principal. The District shall use bond proceeds or other revenue, as available, to reimburse the Developer advances. All reimbursements under the agreement are subject to annual appropriation by the District’s Board of Directors. The agreement automatically terminates on December 31, 2027.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

On May 23, 2011, the District entered into a First Amendment to the FFAA (“Amendment”) whereby the 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. This Amendment was signed concurrently with an Extraterritorial Water and Sewer Service Agreement with Haynes Family Limited Partnership (see Note 5). On February 28, 2018, the District entered into the Termination of the Facilities Funding and Acquisition Agreement between the District and the Developer, which released the Developer from its obligation to make additional capital advances and the Developer released the District from its reimbursement obligations with respect to the payment of Outstanding Advances due under the Funding Agreement.

On February 28, 2018, the District and MG Land Investments, LLC (“MG Land”) entered into a Facilities Funding and Acquisition Agreement (“MG FFAA”). On November 21, 2019, effective February 28, 2018, the District and MG entered into a First Amended and Restated Facilities Funding and Acquisition Agreement (the “Amended FFAA”). Pursuant to the Amended FFAA, MG Land shall advance funds necessary to fund the Construction Related Expenses incurred by the District on a periodic basis as needed For the District up to the Shortfall Amount each fiscal year. The District agrees to make payment to MG Land for all Outstanding Advances, MG Advances and/or Verified costs, together with interest thereon. All advances made by MG Land under this agreement are to be reimbursed by the District with simple interest from the date of deposit in the District’s account, the date that the Verified Cost were incurred by MG or for the Outstanding Advances, the effective date of this Agreement, until the advance is paid, at an interest rate of 8% per annum. Payments shall first be applied to principal and then to accrued and unpaid interest. Payments shall be applied first to Outstanding Advances and then to payments under this Agreement. No payment shall be required of the District hereunder unless and until the District receives the proceeds from General Obligation Bonds issued by District No. 3 or District No. 4 or the Additional Districts pursuant to the terms of the amended FFCOA (See Note 5) in an amount sufficient to reimburse MG for all or a portion of the Outstanding Advances, MG Advances and/or Verified Costs or from other unencumbered revenues of the District. The District shall not be obligated to the MG Land for Construction Related Expenses and/or Verified Costs incurred by MG Land, but not invoiced to the District within 3 years of the date incurred. In the event the District has not paid or reimbursed MG Land 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 MG Land for any Construction Related Expense 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, 2020, the District had \$2,431,834 of developer advances payable under the agreement, which includes \$1,348,648 of accrued interest.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2020

Tap Fee Payment Agreement

On October 10, 2012, the District and ALF–Spring Valley Ranch, LLC (“ALF”) entered into a Tap Fee Payment Agreement with an effective date of January 1, 2012. Per this agreement, ALF agreed to advance funds to the District to cover a shortfall in revenues needed to cover its operations and maintenance expenses. The advances accrue interest at 8% per annum from the date of the payment. The District pledged to repay these advances and any accrued interest using the operations and maintenance component of the District tap fee. The District received a total of \$70,000 in advances during 2012 and 2013.

During 2013, the District received a prepayment of \$200,000 representing the operations and maintenance component of the tap fees for 40 lots from Melody Homes, Inc. (see Note 5). The District used these funds to repay the \$70,000 in advances and \$6,603 of accrued interest. At December 31, 2020, the District had no outstanding developer advances payable under this agreement.

Operation Funding Agreements

The District and the Developer entered into annual Operation Funding Agreements (“OFA”) for the years 2005 through 2012, and for the year of 2014. The OFAs provide for the Developer to advance funds to the District to pay for operations and maintenance costs to the extent that the District does not have sufficient revenues. The District agrees to reimburse the Developer for such advances to the extent the District has funds available after the payment of its annual debt service obligations and annual operations and maintenance expenses, which repayment is subject to annual budget and appropriation. Interest on advances made to the District accrues at the rate of 8% per annum. Repayment of the advances will be applied first to accrued interest and then to principal, with the earliest advances being paid first. These OFAs were terminated by that certain Termination of 2005-2012 and 2014 Operation Funding Agreements, dated January 24, 2019, with an effective date of February 28, 2018. At December 31, 2020, the District had no outstanding developer advances payable under this agreement.

Facilities Acquisition Agreement

On September 18, 2002, the District and District No. 2 entered into a Facilities Acquisition Agreement (“FAA”) with the Developer whereby, among other things, the Developer has agreed to construct certain improvements as defined by the agreement. The FAA provides that the District and District No. 2 are to acquire their respective improvements during the applicable warranty period after they have been completed by the Developer and sets forth the procedures for the Developer to be reimbursed for such construction costs from bond proceeds when available or other legally available revenues of the District on a basis subordinate to the repayments of the bonds. Simple interest will accrue at 9% from the date the cost is incurred by the Developer on the construction costs to be reimbursed. The FAA was terminated by the Termination of the Facilities Acquisition Agreement dated January 24, 2019, with an effective date of February 28, 2018. At December 31, 2020, the District had no developer advances payable under this agreement.

Debt Authorization

As of December 31, 2020, the District had remaining voted debt authorization of approximately \$273,750,000. The District has not budgeted to issue any new debt during 2021.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

Note 5: District Agreements

Intergovernmental Fee Agreement

On November 1, 2004, the District and District No. 2 entered into an Intergovernmental Fee Agreement, as amended on June 14, 2005 and September 4, 2007 (the “IFA”). The IFA acknowledges that District No. 2 has issued General Obligation Bonds to pay for the construction and installation of certain water and sewer facilities by the District. Accordingly, the Capital Component of the Tap Fees imposed by District No. 2 for the first 649 Tap Fees paid to District No. 2 is pledged to repayment of principal and interest on the Bonds. The IFA further provides that property owners who pay Tap Fees imposed by the District on property located within the boundaries of District No. 2 shall be credited as having paid District No. 2’s Tap Fees.

After District No. 2 has received the Capital Component of the first 649 taps, which are pledged to District No. 2’s Bonds, the District No. 2’s remaining O&M Component from Tap Fee collections are to be transferred to the District 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, which Resolution was adopted on November 17, 2014, and recorded on February 12, 2015, the District currently imposes a Tap Fee (described in the District Fee Resolution as a “System Development Fee”) at the rate of \$16,200 per equivalent residential unit. The District Tap Fee is comprised of a \$9,200 Capital Component and a \$7,000 O&M Component. The Tap Fee for any uses other than residential dwelling units shall be determined by the District on a case-by-case basis.

Pursuant to 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, adopted September 16, 2020 and effective as of the same date, each District currently imposes a Tap Fee (described in the District Fee Resolution as a “System Development Fee”) at the rate of \$16,200 per equivalent residential unit. The District Tap Fee is comprised of a \$16,200 Capital Component and a \$0 O&M Component for District Nos. 2, 3, and 4. The Tap Fee for any uses other than residential dwelling units shall be determined by the District on a case-by-case basis.

To that effect, 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 dated August 22, 2019, whereby District No. 3 is authorized to collect and use the Capital Component of the Tap Fees, not otherwise pledged, for repayment of the 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 Obligations Bonds Series 2020B(3) issuance, which closed January 29, 2020 (“District No. 3 2020 Bonds”).

Similarly, the District and District No. 4 adopted Joint Resolution 2020-03-01 Authorizing Collection of the Capital Component of Tap Fees for Repayment of Bonds dated March 9, 2020, whereby District No. 4 is authorized to collect and use the Capital Component of the Tap Fees for repayment of the District No. 4’s \$9,140,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2020A and \$5,621,000 Subordinate Limited Tax General Obligations Bonds Series 2020B issuance,

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

which closed August 12, 2020 (“District No. 4 2020 Bonds”).

Lastly, the District and District No. 2 entered Joint Resolution 2020-09-01 Authorizing Collection of the Capital Component of Tap Fees for Repayment of Bonds dated September 16, 2020, whereby District No. 2 is authorized to collect and use the Capital Component of the Tap Fees not otherwise pledged for repayment of the District No. 2’s \$12,850,000 2020 Loan Agreement and Promissory Note, which closed September 22, 2020 (“District No. 2 Series 2020 Loan”).

Facilities Funding, Construction and Operations Agreement

On July 19, 2007, the District entered into a Facilities Funding, Construction and Operations Agreement (“FFCOA”) with District No. 2, District No. 3 and District No. 4. The purpose of the FFCOA is to ensure that the capital expenditures and operation and maintenance expenses are shared equitably by the users of the facilities. The District has agreed to own, operate, maintain and construct all facilities not otherwise conveyed to other governmental entities. It is anticipated that the District will have little or no assessed valuation within its boundaries and will rely, in part, on revenues from the other districts to operate and maintain the facilities. Districts No. 2, No. 3 and No. 4 agreed to contribute to the costs of construction, operation and maintenance of the facilities, in part, by a pledge of the mill levy imposed for those purposes.

On November 21, 2019, the District entered into a First Amended and Restated Facilities Funding, Construction and Operations Agreement (“Amended FFCOA”) with District No. 2, District No. 3 and District No. 4. The purpose of the Amended FFCOA is to amend certain terms of the FFCOA to increase the efficiency in the provision of the facilities and integrate the acknowledgement of the satisfaction of District No. 2’s responsibilities as set forth in the Agreement of Acknowledgement of Satisfaction of Obligations of District No. 2, Related to Funding of Construction of Public Improvements and Acknowledgement of Ongoing Operations of District Nos. 1, 3 and 4 Related to the Funding of Construction of Public Improvements, see below, between the District and Districts Nos. 2, 3 and 4. Each District has agreed that the District shall own, operate, maintain, finance and construct Primary Facilities and Secondary Facilities and that District Nos 2, 3 & 4 (the “Financing Districts”) will contribute to the costs of construction, operation and maintenance of such facilities. It is the intent of the Financing Districts that each shall be the issuer of General Obligation Bonds and shall remit General Obligation Bond proceeds to the District to finance the Secondary Facilities and in certain circumstances, the Primary Facilities, and the District shall enter into contracts to finance and construct or cause to be financed and constructed the Secondary Facilities and the Primary Facilities. The Financing Districts will continue to pay their proportionate share of the operations and maintenance expenses of the Primary Facilities according to the District No. 1 Cost Allocation Calculation, as defined in the Agreement, and will be financed, in part, by a general fund mill levy imposed by the Financing Districts for those purposes. It is the intent of the Districts that District Nos. 5 and 6, upon organization, will be added parties to the Amended FFCOA and will share in the funding of the Operating and Capital Obligations.

On September 16, 2020, the District entered into a First Amendment to the First Amended and Restated Facilities Funding, Construction and Operations Agreement (“First Amendment to Amended FFCOA”) with District No. 2, District No. 3 and District No. 4. This First Amendment to Amended FFCOA clarifies that District No. 2 will benefit from the construction of certain roads and the extension of

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

certain water and sanitary sewer lines, and in consideration thereof will use proceeds from the District No. 2 Series 2020 Loan to, inter alia, funds the construction of these public improvements.

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

On November 21, 2019, the District and District Nos. 2, 3 and 4 entered into an Agreement of Acknowledgement of Satisfaction of Obligations of District No. 2, Related to Funding of Construction of Public Improvements and Acknowledgement of Ongoing Operations of District Nos. 1, 3 and 4 Related to the Funding of Construction of Public Improvements (the “Acknowledgement Agreement”). The Acknowledgement Agreement acknowledged District No. 2 has an obligation to collect and remit 649 District Tap Fees pledged to the District pursuant to the IFA (See Above), District No. 2 has satisfied all obligations due to the District for the funding of the construction of Public Improvements arising under Agreements existing as of the effective date of this Agreement, other than the District Tap Fee Obligation and District No. 2 shall have no further obligation to make any payments to the District for the funding of the construction of Public Improvements under any Agreement existing as of the effective date of this Agreement, other than the District Tap Fee Obligation. The Districts also acknowledged that in furtherance of the provisions of the Amended FFCOA, the District upon termination of the District No. 2 FFAA shall enter into a Facilities Funding and Acquisition Agreement with MG Land for the reimbursement of the Outstanding Reimbursement Obligation of the District under the FFAA. The District and District Nos. 3 and 4 acknowledge there may be additional districts organized which will issue bonds and work with the District, District No. 3, and District No. 4 to help fund the remaining Public Improvements and shall exercise reasonable efforts to assure the additional districts become parties to the Amended FFCOA to contribute toward the reimbursement of the District Outstanding Reimbursement Obligation and to complete the Public Improvements.

On September 16, 2020, the District entered into a First Amendment to Agreement of Acknowledgement of Satisfaction of Obligations of District No. 2, Related to Funding of Construction of Public Improvements and Acknowledgement of Ongoing Operations of District Nos. 1, 3 and 4 Related to the Funding of Construction of Public Improvements (First Amendment to Acknowledgement Agreement”) with District No. 2, District No. 3 and District No. 4. This First Amendment to Acknowledgement Agreement clarifies that District No. 2 bears sole responsibility to make all payments related to its repayment of the District No. 2 2020 Loan.

Operating Reimbursement Obligation and Infrastructure Funding and Acquisition Agreement

On November 21, 2019, the District and District Nos. 3 and 4 entered into the Outstanding Reimbursement Obligation and Infrastructure Funding and Acquisition Agreement (the “OROIFAA Agreement”). Pursuant to the OROIFAA Agreement, District No. 2 assented to the Outstanding Reimbursement Obligation under the FFAA being transferred to the District and the District desires to reimburse MG Land for the District Outstanding Reimbursement Obligation under the FFAA, construction related expenses and to acquire facilities completed or caused to be completed by MG Land. District Nos. 3 and 4 desire to express their assent to the District and MG Land to issue General Obligation Bonds under the Amended FFCOA and to remit the net proceeds of the General Obligation Bonds issued by District Nos. 3 and 4 to the District, in part to make payment to MG Land for amounts owing under this Agreement. Simple interest shall accrue at the rate of 8% per annum until paid and shall begin to accrue (a) on each advance from the date of deposit into the District’s account and (b) on verified costs from the date the verified costs were incurred. Payment shall credit first against the

Spring Valley Metropolitan District No. 1

Notes to Financial Statements December 31, 2020

principal amount due and then to accrued and unpaid interest. In the event the District has not paid or reimbursed MG Land for any Construction Related Expenses 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.

On September 16, 2020, the District entered into a First Amendment to Outstanding Reimbursement Obligation and Infrastructure Funding and Acquisition Agreement (First Amendment to OROIFAA Agreement”), with District Nos. 3 and 4. This First Amendment to OROIFAA Agreement clarifies the District assumes responsibility for the reimbursement of outstanding capital advances made to District No. 2 by MG Land Investments, LLC, resulting from termination of the FFAA between District No. 2 and MG Land Investments, LLC on November 21, 2019.

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 (“Golf Club Property”). Per this agreement, concurrent with approval of the Amendment of the FFAA (see Note 4) and the associated reductions of outstanding developer advance principal obligations of District No. 1 and District No. 2 for a total of \$600,000, the District agreed to provide irrigation water and sewer service to the Golf Club Property up to \$300,000. The Golf Club Property 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. Per the agreement, the District deposited \$100,000 in an escrow account for the purpose of completing the road repairs necessary to obtain 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 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.

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

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”). The District had agreed to construct a road necessary for the access and development of lots by Century. The Districts do not currently have sufficient monies available to construct and/or to acquire the Road. Therefore, Century will construct the road with the District agreeing to credit the payment of the system development fees, at the rate of \$16,200 per equivalent residential unit, owned on the lots owned by Century, until the road is repaid in full.

Note 6: Related Party

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

Note 7: Segment Information

The District's enterprise fund provides “water and sewer services”. Segment information for the year ended December 31, 2020 was as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenue	\$ 501,320	\$ 279,837	\$ 781,156
Depreciation	118,360	101,348	219,708
Net operating income (loss)	99,798	(198,157)	(98,359)
Total capital assets	2,923,651	2,504,509	5,428,160

Note 8: Tax, Spending and Debt Limitations

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

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

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

Spring Valley Metropolitan District No. 1

Notes to Financial Statements
December 31, 2020

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

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

On November 6, 2001, the District's electors authorized the District to increase taxes \$1,000,000 annually, or by such lesser annual amount as may be necessary to pay the District's operations, maintenance and other expenses in fiscal year 2002 and subsequent years. Such taxes and related investment income are to be collected and spent without regard to any spending, revenue-raising, or other limitation. Additionally, the District's electors authorized the District to retain and spend any and all amounts annually from any revenue sources whatsoever other than ad valorem taxes, including but not limited to tap fees, facility fees, service charges, inspection charges, administrative charges, grants and any other fee, rate, toll, penalty, income or charge imposed, collected or authorized by law to be imposed or collected by the District without limitation by Article X, Section 20 of the Colorado Constitution.

Note 9: Risk Management

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

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 10: Interfund and Operating Transfers

During 2020, the District transferred \$214,878 from the Capital Projects Fund to the General Fund for the repayment of a 2019 transfer.

SUPPLEMENTAL INFORMATION

Spring Valley Metropolitan District No. 1

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 Capital Projects Fund
 For the year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Transfer from District No. 2	\$ -	\$ 1,500,000	\$ 216,327	\$ (1,283,673)
Transfer from District No. 3	6,019,250	5,909,672	3,936,513	(1,973,159)
Transfer from District No. 4	-	12,443,558	2,379,955	(10,063,603)
Total Revenues	6,019,250	19,853,230	6,532,795	(13,320,435)
EXPENDITURES				
Capital Outlay				
Accounting and audit	-	-	16,107	(16,107)
Engineering	-	300,000	268,286	31,714
Legal	30,000	30,000	75,653	(45,653)
Construction, repairs, and other capital	5,989,250	22,368,577	3,450,724	18,917,853
Total Capital Outlay	6,019,250	22,698,577	3,810,770	18,887,807
Debt Service				
Repay developer advances - principal	-	1,000,000	1,136,825	(136,825)
Repay developer advances - interest	-	1,200,000	1,370,322	(170,322)
Total Debt Service	-	2,200,000	2,507,147	(307,147)
Total Expenditures	6,019,250	24,898,577	6,317,917	18,580,660
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	(5,045,347)	214,878	5,260,225
OTHER FINANCING SOURCES (USES)				
Developer advance	-	5,045,347	-	(5,045,347)
Transfers out	-	-	(214,878)	(214,878)
Total Other Financing Sources (Uses)	-	5,045,347	(214,878)	(5,260,225)
NET CHANGE IN FUND BALANCE				
	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR				
	-	-	-	-
FUND BALANCE, END OF YEAR				
	\$ -	\$ -	\$ -	\$ -

Spring Valley Metropolitan District No. 1

Schedule of Revenues and Expenditures - Budget and Actual

Proprietary Fund

For the year ended December 31, 2020

	Original & Final		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Water service charges	\$ 327,355	\$ 445,762	\$ 118,407
Sewer service charges	248,282	270,769	22,487
Hydrant water usage fees	-	46,490	46,490
Transfer fees	-	16,650	16,650
Penalty fees - water and sewer	5,000	1,485	(3,515)
Meter fees	8,938	-	(8,938)
Inspection fees	3,625	-	(3,625)
Miscellaneous income	3,000	-	(3,000)
Interest income	500	413	(87)
Total Revenues	596,700	781,569	184,869
EXPENDITURES			
Accounting	6,500	7,915	(1,415)
Bank fees	-	3,595	(3,595)
Capital outlay	-	169,851	(169,851)
Chemicals and testing	58,000	26,845	31,155
Contingency	650,000	-	650,000
Engineering	30,000	13,515	16,485
Facility maintenance and repairs	220,000	171,821	48,179
Insurance	19,650	24,157	(4,507)
Jetting	30,000	40,419	(10,419)
Legal	30,000	19,241	10,759
Management	60,000	44,411	15,589
Meter installation	-	16,609	(16,609)
Miscellaneous	7,000	4,670	2,330
Sludge hauling	45,000	53,064	(8,064)
Utilities	100,000	143,208	(43,208)
Water and sewer operations	100,000	90,337	9,663
Total Expenditures	1,356,150	829,658	526,492
Net Income (Loss) Non-GAAP Basis	(759,450)	(48,089)	711,361
Reconciliation to GAAP Basis			
Depreciation and amortization		(219,708)	
Capitalized expenditures		169,851	
Net Income (Loss) GAAP Basis		<u>\$ (97,946)</u>	