

**SOUTHEAST METRO STORMWATER AUTHORITY**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

SOUTHEAST METRO STORMWATER AUTHORITY  
FINANCIAL REPORT  
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Board of Directors  
Southeast Metro Stormwater Authority  
Englewood, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the enterprise activities of the Southeast Metro Stormwater Authority, Englewood, Colorado as of and for the year ended December 31, 2011, which collectively comprise Southeast Metro Stormwater Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise activities of the Southeast Metro Stormwater Authority as of December 31, 2011, and the respective changes in financial position and cash flows thereof, and the budgetary comparisons for the enterprise fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Johnson and Associates*

Centennial, CO  
May 11, 2012

## SOUTHEAST METRO STORMWATER AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

As management of the Southeast Metro Stormwater Authority ("the Authority"), we are providing this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2011. Readers should consider the information presented in the Authority's basic financial statements in addition to that presented in this analysis.

#### Background

The Southeast Metro Stormwater Authority ("the Authority") was formed pursuant to Section 29-1-204.2, C.R.S. by an intergovernmental agreement dated September 19, 2006, among Arapahoe County ("the County"), the City of Centennial ("the City"), the Arapahoe County Water and Wastewater Authority ("ACWWA"), the East Cherry Creek Valley Water and Sanitation District ("ECCV"), and the Inverness Water and Sanitation District ("IWS). The purpose of the agreement is to plan, fund, construct, acquire, operate, and maintain drainage and flood control facilities within the Authority's boundaries. By resolution of the Board of Directors, the Authority serves as an enterprise, as such term is defined in Article X, Section 20 of the Colorado Constitution, and in furtherance thereof, to serve as a government-owned business, engaged in water enterprise activities.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements include the following four components: 1) statement of net assets; 2) statement of revenues, expenses, and changes in net assets; 3) schedule of revenues and expenditures—budget and actual (non-GAAP budgetary basis); and 4) notes to the financial statements.

**Statement of Net Assets:** The Statement of Net Assets presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

**Statement of Revenues, Expenses, and Changes in Net Assets:** The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Authority's net assets changed during the period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (primarily receivables and payables).

**Schedule of Revenues and Expenditures—Budget and Actual (Non-GAAP Budgetary Basis):** The Authority adopted an appropriated budget for the year ended December 31, 2011. The budgetary comparison schedule has been provided to demonstrate compliance with the Local Government Budget Law.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

#### Financial Analysis

The following is a condensed statement of net assets for the Authority as of December 31, 2011, along with comparative information as of December 31, 2010.

	December 31	
	2011	2010
<b>Assets:</b>		
Current assets	\$ 9,654,317	\$ 8,708,741
Capital assets	148,509,212	144,406,697
Total Assets	<u>\$ 158,163,529</u>	<u>\$ 153,115,438</u>
<b>Liabilities:</b>		
Short-term liabilities	\$ 1,462,459	\$ 2,114,040
Long-term liabilities	1,453,513	-
Total Liabilities	<u>2,915,972</u>	<u>2,114,040</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	146,985,699	144,404,239
Unrestricted	8,261,858	6,597,159
Total Net Assets	<u>\$ 155,247,557</u>	<u>\$ 151,001,398</u>

The Authority's principal current asset at December 31, 2011, is cash and cash equivalents of \$9,146,153. In addition, the Authority invested about \$3.7 million in capital assets during 2011, and acquired contributed assets of about \$7.0 million. Capital assets net of accumulated depreciation amount to \$148,509,212 as of December 31, 2011. The Authority's liabilities as of December 31, 2011, include accounts payable and accrued expenses of \$739,324, drainage escrow deposits and collateral held of \$653,135, and reimbursement agreements of \$1,523,513.

The following is a condensed statement of revenues, expenses, and changes in net assets for the Authority for the years ended December 31, 2011 and 2010.

	December 31,	
	2011	2010
<b>Operating Revenues:</b>		
Storm drainage utility fees	\$ 8,689,746	\$ 8,489,232
<b>Operating Expenses:</b>		
Expenses except depreciation	4,683,052	4,662,203
Depreciation	6,591,968	6,173,640
Total Operating Expenses	<u>11,275,020</u>	<u>10,835,843</u>
Operating Income (Loss)	(2,585,274)	(2,346,611)
<b>Other Nonoperating Revenue (Expenses)</b>		
Net nonoperating revenue (expenses)	393,825	724,027
<b>Capital Contributions</b>		
Governmental and other	6,437,608	1,302,401
<b>Change in Net Assets</b>	4,246,159	(320,183)
<b>Net Assets - Beginning</b>	151,001,398	151,321,581
<b>Net Assets - Ending</b>	<u>\$ 155,247,557</u>	<u>\$ 151,001,398</u>

As shown above, net assets decreased by \$320,183 in 2010 and increased by \$4,246,159 in 2011. The largest increase in 2011 was due to capital assets contributed to the Authority, pursuant to the Intergovernmental Agreement by ACWWA. Operating revenues in 2010 were \$8,489,232 and \$8,689,746 in 2011. Operating expenses in 2011 included \$2,995,786 of personal services, \$1,470,761 of contractual services, and \$216,505 of commodities. Nonoperating revenues and expenses in 2011 included interest revenue of \$14,644, and nonoperating revenue of \$379,181.

The following is a condensed statement of budget and actual revenue and expenditures for 2011. Both the budget and the actual amounts are presented on the modified accrual basis. The modified accrual basis is not in accordance with generally accepted accounting principles ("GAAP"). The principal departures from GAAP are the inclusion of proceeds from the issuance of debt, expenditures for capital

outlay and debt principal reduction, and the recording of revenues when received rather than when earned.

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues:</b>				
Stormwater utility fees	\$ 8,570,475	\$ 8,570,475	\$ 8,453,233	\$ (117,242)
Other	1,623,250	1,623,250	1,729,245	105,995
Total Revenues	<u>10,193,725</u>	<u>10,193,725</u>	<u>10,182,478</u>	<u>(11,247)</u>
<b>Expenditures:</b>				
Program expenses	5,347,642	5,291,453	4,757,272	534,181
Building, capital equipment, and other	726,425	726,425	407,171	319,254
Loan repayments	470,386	383,000	342,053	40,947
Capital improvement program	4,000,000	8,287,469	3,208,924	5,078,545
Total Expenditures	<u>10,544,453</u>	<u>14,688,347</u>	<u>8,715,420</u>	<u>5,972,927</u>
<b>Excess of Revenue Over Expenditures</b>	<u>(\$350,728)</u>	<u>(\$4,494,622)</u>	<u>\$1,467,058</u>	<u>\$5,961,680</u>

The most significant variance between the final budget and actual expenditures was for the capital improvement program with expenditures less than budget by \$5,078,545. This is a normal occurrence since actual expenditures typically lag behind those budgeted.

### Capital Assets

The Authority held \$171,085,843 of capital assets at December 31, 2011. Most of these were acquired from the City, ECCV, IWS, and ACWWA during 2008, 2009 and 2011.

### Long-term Debt

On January 1, 2011, developer reimbursement agreements in the amount of \$1,865,566 were assumed from ACWWA as a result of the transfer of ACWWA's stormwater permit to the Authority. The various agreements call for the payment of system development fees to the developers upon receipt of such fees by the Authority. Future payments are contingent upon development within the Authority's service area and the collection of system development fees. The Authority believes that the payment of these obligations is likely. However, there is no debt service schedule relating to the various agreements, and the date of future payments is unknown.

### Economic Factors and Next Year's Budget

Economic conditions have been factored into the development of the 2012 budget. Modifications to the budget were made in February 2012 for the carryover of encumbrances and unfinished capital projects.

### Requests for Information

This report is designed to provide a general overview of the Authority's finances for all interested parties. Questions concerning any of the information provided or requests for additional information should be addressed to the Director of Finance and Administration, Southeast Metro Stormwater Authority, 76 Inverness Drive East., Ste. A, Englewood, CO 80112.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF NET ASSETS

December 31, 2011

ASSETS	
Current Assets	
Cash and cash equivalents	\$9,146,153
Accounts receivable	504,197
Interest receivable	867
Prepaid expenses	<u>3,100</u>
Total Current Assets	<u>9,654,317</u>
Capital Assets	
Land	47,870
Tenant improvements	379,749
Vehicles and related equipment	718,628
Maintenance equipment	117,064
Office furniture, fixtures and equipment	167,728
Computer software and hardware	205,092
Drainage improvements	12,463,730
Contributed drainage improvements	153,914,870
Construction in progress	<u>3,071,112</u>
	171,085,843
Less accumulated depreciation	<u>(22,576,631)</u>
Net Capital Assets	<u>148,509,212</u>
Total Assets	<u>158,163,529</u>
LIABILITIES	
Current Liabilities	
Accounts payable	424,297
Accrued salaries, benefits, and compensated absences	315,027
Drainage escrow deposits and collateral held	653,135
Reimbursement agreements	<u>70,000</u>
Total Current Liabilities	1,462,459
Noncurrent Liabilities	
Reimbursement agreements	<u>1,453,513</u>
Total Liabilities	<u>2,915,972</u>
NET ASSETS	
Invested in capital assets, net of related debt	146,985,699
Unrestricted	<u>8,261,858</u>
Total Net Assets	<u>\$155,247,557</u>

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2011

Operating Revenues	
Storm drainage utility fees	<u>\$8,689,746</u>
Operating Expenses	
Personal services	2,995,786
Contractual services	1,470,761
Commodities	216,505
Depreciation	<u>6,591,968</u>
Total Operating Expenses	<u>11,275,020</u>
Operating Income (Loss)	<u>(2,585,274)</u>
Nonoperating Revenue	
Interest income	14,644
Other revenue	<u>379,181</u>
Total Nonoperating Revenue	<u>393,825</u>
Income (Loss) Before Capital Contributions	(2,191,449)
Capital contributions - intergovernmental	6,197,562
Capital contributions - other	<u>240,046</u>
Increase in Net Assets	4,246,159
Net Assets--Beginning of Period	<u>151,001,398</u>
Net Assets--End of Period	<u><u>\$155,247,557</u></u>

See accompanying notes to financial statements.



SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$8,516,026
Payments to and on behalf of employees	(2,957,891)
Payments to providers and suppliers	(2,376,802)
Other receipts	<u>379,181</u>
Net Cash Flows from Operating Activities	<u>3,560,514</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Principal payments on reimbursement agreements	<u>(342,053)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Intergovernmental and other contributions received	1,335,420
Payments on capital lease obligation	(2,458)
Acquisition of capital assets	<u>(3,726,730)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(2,393,768)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on short-term investments	<u>14,895</u>
Net Increase in Cash and Cash Equivalents	839,588
Cash and Cash Equivalents -- Beginning of Period	<u>8,306,565</u>
Cash and Cash Equivalents -- End of Period	<u><u>\$9,146,153</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income (loss)	(\$2,585,274)
Adjustments to reconcile operating income to net cash provided by operating activities	
Other nonoperating revenue	379,181
Depreciation	6,591,968
Changes in assets and liabilities	
Accounts receivable	(173,720)
Other current assets	67,482
Accounts payable	(475,874)
Accrued expenses and other liabilities	<u>(243,249)</u>
Net Cash Flows From Operating Activities	<u><u>\$3,560,514</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>	
Capital assets contributed	\$6,967,753
Reimbursement agreements assumed	1,865,566

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF REVENUES AND EXPENDITURES--BUDGET AND ACTUAL  
(NON-GAAP BUDGETARY BASIS)

For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenue</b>				
Storm drainage utility fees	\$8,570,475	\$8,570,475	\$8,453,233	(\$117,242)
Interest income	23,000	23,000	14,644	(8,356)
Intergovernmental revenue	1,250,000	1,250,000	1,095,374	(154,626)
Other revenue	350,250	350,250	619,227	268,977
<b>Total Revenue</b>	<b>10,193,725</b>	<b>10,193,725</b>	<b>10,182,478</b>	<b>(11,247)</b>
<b>Expenditures</b>				
Administration	1,665,025	1,417,158	1,225,179	191,979
Floodplain & Master Planning	542,753	604,722	438,684	166,038
Maintenance	1,475,775	1,536,775	1,497,359	39,416
Water Quality & Special Projects	889,433	1,006,542	870,516	136,026
Land Development	306,302	257,902	257,770	132
Building & Space	410,425	410,425	331,477	78,948
Capital Purchases	316,000	316,000	75,694	240,306
Reimbursement Agreements	470,386	383,000	342,053	40,947
CIP Management	468,354	468,354	467,764	590
Capital Improvement Program	4,000,000	8,287,469	3,208,924	5,078,545
<b>Total Expenditures</b>	<b>10,544,453</b>	<b>14,688,347</b>	<b>8,715,420</b>	<b>5,972,927</b>
<b>Excess of Revenue over (Under) Expenditures - Budgetary Basis</b>	<b>(\$350,728)</b>	<b>(\$4,494,622)</b>	<b>1,467,058</b>	<b>\$5,961,680</b>
<b>Reconciliation of actual amounts to GAAP basis:</b>				
Accounts receivable accrual			236,513	
Capital contributions			5,102,188	
Capital asset expenditures			3,726,730	
Capital lease repayments			2,459	
Reimbursement Agreement Payments			342,053	
Depreciation			(6,591,968)	
Salary, benefit, and compensated absences accrual			(38,874)	
<b>Change in Net Assets - GAAP Basis</b>			<b>\$4,246,159</b>	

See accompanying notes to financial statements.

# SOUTHEAST METRO STORMWATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southeast Metro Stormwater Authority (“the Authority”) was formed pursuant to Section 29-1-204.2, C.R.S. by an intergovernmental agreement dated September 19, 2006, among Arapahoe County (“the County”), the City of Centennial (“the City”), the Arapahoe County Water and Wastewater Authority (“ACWWA”), the East Cherry Creek Valley Water and Sanitation District (“ECCV”), and the Inverness Water and Sanitation District (“IWS”). The purpose of the agreement is to plan, fund, construct, acquire, operate, and maintain drainage and flood control facilities within the Authority’s boundaries. By resolution of the Board of Directors, the Authority serves as an enterprise, as such term is defined in Article X, Section 20 of the Colorado Constitution, and in furtherance thereof, to serve as a government-owned business, engaged in water enterprise activities.

#### Reporting Entity

The Authority is a separate stand-alone governmental entity. The Authority’s Board of Directors consists of 2 voting members appointed by the Arapahoe County Board of County Commissioners, 3 voting members appointed by the City of Centennial City Council, and one ex-officio non-voting member jointly appointed by ACWWA, ECCV, and IWS.

The Authority follows Governmental Accounting Standards Board (“GASB”) accounting pronouncements, which provide guidance for determining which governmental activities, organizations, and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a government organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s reporting entity. Financial accountability includes, but is not limited to, appointment of a 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 Authority is not financially accountable for any other organization, nor is the Authority a component unit of any other primary governmental entity.

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority is accounted for as an enterprise fund. Enterprise funds are used to account for business-type activities that are financed with debt that is secured by a pledge of net revenues from fees and charges. The Authority’s 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.

The Authority’s activities are accounted for, and reported on, in accordance with all Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The financial statements present the financial position of the Authority as of December 31, 2011, and the results of its operations and cash flows for the year ended December 31, 2011. The statement of revenues, expenses, and changes in net assets distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations.

#### Stewardship, Compliance and Accountability

An annual budget is established for the Authority. Budgetary comparisons are included in the appropriate financial statements and schedules as required by law. The legal level of budgetary control is at the enterprise level. All appropriations unexpended at the end of the year lapse. Encumbrance accounting is used by the Authority for budgetary control purposes.

The 2011 budget, as revised, was prepared on the modified accrual basis of accounting. The modified accrual basis is not in accordance with generally accepted accounting principles (“GAAP”). The principal departures from GAAP are the inclusion of proceeds from the issuance of debt, expenditures for capital outlay and debt principal reduction, and the recording of revenues when received rather than when earned.

The following is a summary of the procedures used in establishing budgetary data reflected in the financial statements:

1. The Authority’s Executive Director submits to the Board of Directors a proposed budget for the next year.
2. A public hearing is conducted to obtain citizen comments.
3. Prior to December 31, the Board adopts the budget and passes the appropriation resolution.
4. After commencement of the fiscal year, the appropriation resolution is irrevocable. However, the Board may adopt supplemental appropriations by resolution due to circumstances which could not be foreseen at the time of adoption of the original budget.

Investments

The Authority has stated its investments at fair value in accordance with GASB Statement No. 31. Investments in local government investment pools are at fair value which is determined by the fund trustee using quoted market prices. The fair value of the Authority’s position in the pool is the same as the value of the pool shares.

Statement of Cash Flows

For purposes of the statement of cash flows, the Authority considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables

Accounts receivable are expressed net of allowances for doubtful accounts, if any.

Capital Assets

Capital assets, which include property, plant, equipment, and drainage improvements, are reported in the financial statements. Capital assets are defined by the Authority as assets with an estimated useful life greater than one year. The Authority follows the guidelines set forth in Chapter 9, Section 1.4.1 of the Fiscal Procedures Manual promulgated by the State Controller with regard to dollar thresholds for the capitalization of capital assets. The applicable capitalization guidelines are as follows:

<u>Type of Asset</u>	<u>Capitalization Threshold</u>
Land	All purchases are capitalized, regardless of cost
Land Improvements	\$50,000
Building	\$50,000
Leasehold Improvements	\$50,000
Furniture and Equipment	\$5,000 per item
Software (purchased)	\$5,000
Software (internally developed)	\$50,000

For capitalization purposes, drainage improvements are deemed to be land improvements and, consistent with the State Controller’s guidelines, such improvements costing \$50,000 or more are capitalized.

Purchased or constructed capital assets are recorded at cost. Contributed capital assets are recorded at the estimated fair market value on the date contributed.

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

<u>Capital Asset Type</u>	<u>Years</u>
Tenant improvements	7
Vehicles & related equipment	5-7

Office furniture, fixtures & equipment	7
Computer software & hardware	7
Drainage improvements	25-50

### Compensated Absences

The Authority's policy is to accrue as an expense and liability employee vacation, sick leave, and compensatory time when the employee vests in such benefits.

### Net Assets

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net assets invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

*Restricted* – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

If both restricted and unrestricted resources are available to use for the same purpose, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

Note 2: CASH

### Cash Deposits

Colorado statutes require protection of public moneys in banks and savings and loans beyond that provided by federal depository insurance. The Public Deposit Protection Act (“PDPA”) in Section 11-10.5-107(5), C.R.S., requires all units of local government to deposit cash in eligible public depositories. Eligible public depositories are required to pledge designated eligible collateral that has a market value equal to at least 102% of the deposits exceeding those amounts insured by federal insurance. Upon liquidation of a defaulting eligible depository, the statute requires the State Banking Board to seize the eligible collateral, liquidate the collateral, and repay the public deposits to the depositing government.

PDPA allows financial institutions to create a single collateral pool for all public funds. The pool for all the uninsured deposits is to be maintained by a third party custodian. The custodian is required to hold the securities in the name of the collateral pool (that is, collectively for the governments secured by the collateral). The eligible collateral is defined by PDPA. The State Division of Banking monitors the naming of eligible public depositories and the reporting of uninsured deposits and assets maintained in the collateral pools. Under PDPA, the local government's responsibility is to ensure that the bank is a PDPA eligible depository, register with the Division of Banking to obtain an Official Custodian Identification Number, and provide the bank with the assigned Number before funds are deposited.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of a third party. Pursuant to Statement No. 40 of the Governmental Accounting Standards Board, deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are: (1) uncollateralized; (2)

collateralized with securities held by the pledging financial institution; or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. If a government has deposits at the end of the fiscal year that are exposed to custodial credit risk, the amount of those deposits must be disclosed.

Since the Authority's deposits are in an eligible public depository and its deposits are recognized by the custodian as one of the governments covered by the financial institution's collateral pool, the Authority's deposits are fully collateralized and there is no custodial credit risk.

At December 31, 2011, the carrying value of the Authority's deposits was \$ 7,638,737 and the bank balances were \$ 7,686,024. Of the bank balances, \$250,000 was covered by federal deposit insurance. The remaining \$ 7,436,024 was collateralized under PDPA.

At the end of every month, the Authority's depository bank performs an analysis of the Authority's checking account to determine the dollar amount of collected balances eligible for an earnings credit. As of December 31, 2011, the Authority's average monthly collected balances were earning interest at the rate of 0.15%.

### Note 3: INVESTMENTS

Investment policies are governed by Colorado statute and the Authority's own investment policies. Investments of the Authority may include the following (certain limitations apply):

- Obligations of the United States and its agencies
- Obligations which are guaranteed by the United States government
- Obligations of the World Bank, Inter-American Development Bank, African Development Bank
- General obligation bonds of any state, District of Columbia, U.S. Territory, or any of their subdivisions
- Revenue bonds of any state, District of Columbia, U.S. Territory, or any of their subdivisions
- Bankers acceptances issued by state or national banks
- Commercial paper
- The Authority's own obligations
- Repurchase agreements in U.S. government and U.S. government agency securities
- Money market funds
- Guaranteed investment contracts
- Designated local government investment pools

#### Custodial Credit Risk

Investments of the Authority are exposed to custodial credit risk if the securities are uninsured, are not registered in the Authority's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the Authority's name. As of December 31, 2011, none of the Authority's investments are subject to custodial credit risk.

#### Credit Quality Risk

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of December 31, 2011, none of the Authority's investments are subject to custodial credit risk.

#### Concentration of Credit Risk

More than five percent of the Authority's investments are in ColoTrust which comprises 100% of the Authority's total investments.

#### Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of December 31, 2011, the Authority held the following which are not evidenced by securities that exist in physical or book entry form:

<u>Description</u>	<u>Carrying Value</u>	<u>Market Value</u>
ColoTrust (demand local government investment pool)	<u>\$1,507,415</u>	<u>\$1,507,415</u>

#### Foreign Currency Risk

The Authority's investments were not subject to foreign currency risk.

#### Note 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Balance 1/1/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/11</u>
Capital assets not being depreciated:				
Land	\$--	\$47,870	\$--	\$47,870
Construction in progress	<u>3,837,712</u>	<u>3,208,924</u>	<u>3,975,524</u>	<u>3,071,112</u>
Total Capital Assets Not Being Depreciated	<u>3,837,712</u>	<u>3,256,794</u>	<u>3,975,524</u>	<u>3,118,982</u>
Capital assets being depreciated:				
Tenant improvements	379,749	--	--	379,749
Vehicles and related equipment	622,140	116,788	20,300	718,628
Maintenance equipment	117,064	--	--	117,064
Office furniture, fixtures & equipment	167,728	--	--	167,728
Computer software & hardware	205,092	--	--	205,092
Drainage improvements	8,130,321	4,333,409	--	12,463,730
Contributed drainage improvements	<u>146,947,117</u>	<u>6,967,753</u>	--	<u>153,914,870</u>
Total capital assets being depreciated	156,569,211	11,417,950	20,300	167,966,861
Less accumulated depreciation				
Tenant improvements	(183,156)	(54,468)	--	(237,624)
Vehicles and related equipment	(160,292)	(99,224)	(15,563)	(243,953)
Maintenance equipment	(45,049)	(16,723)	--	(61,772)
Office furniture, fixtures, & equipment	(79,943)	(23,961)	--	(103,904)
Computer software & hardware	(92,225)	(29,299)	--	(121,524)
Drainage improvements	(157,575)	(211,698)	--	(369,273)
Contributed drainage improvements	<u>(15,281,986)</u>	<u>(6,156,595)</u>	--	<u>(21,438,581)</u>
Net capital assets being depreciated	<u>140,568,985</u>	<u>4,825,982</u>	<u>4,737</u>	<u>145,390,230</u>
Net capital assets	<u>\$144,406,697</u>	<u>\$8,082,776</u>	<u>\$3,980,261</u>	<u>\$148,509,212</u>

#### Note 5: LONG-TERM DEBT

On January 1, 2011, developer reimbursement agreements in the amount of \$1,865,566 were assumed from ACWWA (see Note 1) as a result of the transfer of ACWWA's stormwater permit to the Authority. The various agreements call for the payment of system development fees to the developers upon receipt of such fees by the Authority. Future payments are contingent upon development within the Authority's service area and the collection of system development fees. The Authority believes that the payment of these obligations is likely. However, there is no debt service schedule relating to the various agreements, and the date of future payments is unknown. The Authority has estimated that \$70,000 of the balance as of December 31, 2011, is a current liability.

#### Capital Lease

In 2009, the Authority acquired maintenance equipment under a capital lease arrangement. One payment in the amount of \$2,458 was made in 2011 and the lease was paid off.

#### Long-term Debt Activity

Long-term debt activity for the year ended December 31, 2011, was as follows:

	<u>1/1/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>
Reimbursement agreements	\$--	\$1,865,566	\$342,053	\$1,523,513
Capital lease obligation	2,458	--	2,458	--

NOTE 6: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to manage these risks, the Authority is a member of the Colorado Special Districts Property and Liability Pool ("the Pool"). The Pool is an organization created by intergovernmental agreement to provide property, casualty, and workers compensation coverage to its members.

Note 7: PENSION PLAN

The Authority contributes to the Colorado County Officials and Employees Retirement Association (CCOERA) pension plan on behalf of all full-time employees. Employees are required to participate in the plan beginning on the first day of employment.

The plan is a defined contribution plan through which contributions of employers are combined with contributions of employees and invested in income earning instruments for the benefit of plan participants. Any county, municipality or special district of the State of Colorado may, with the consent of the Association become a member and participate in the plan by adopting it for its officers and employees. During 2011, the Authority and participating employees each contributed amounts equal to 6% of compensation to the plan. The dollar amount of contributions was \$131,264 each for employer and employee. Employee contributions must match employer contributions. Participants are immediately vested 100% in their own contributions and earnings. Vesting in employer contributions and earnings occurs at the rate of 25% per year. Copies of the Plan's financial statements may be obtained from CCOERA.

NOTE 8: DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The assets under this plan are no longer considered property of the Authority and are held by the Authority's third-party administrator for the exclusive benefit of the plan participants and their beneficiaries. The Authority's plan is administered by CCOERA. The Authority has little administrative involvement and does not perform the investing function for this plan. The assets of the plan are not considered assets of the Authority and are not included in the financial statements.

NOTE 9: TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, also known as the TABOR Amendment, which has several limitations, including those for revenue, expenditures, property taxes, and issuance of debt. TABOR is complex and subject to judicial interpretation. Enterprises, defined as government-owned businesses 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.

Section 37-45.1-101, C.R.S., *et. seq.* authorizes governmental entities such as the Authority to establish water activity enterprises. On September 28, 2006, the Board of Directors passed a resolution creating the Southeast Metro Stormwater Authority ("SEMSWA") Water Activity Enterprise. Therefore, TABOR is not applicable to the Authority.

NOTE 10: INTERGOVERNMENTAL AGREEMENT FOR THE COLLECTION OF STORMWATER FEES

In 2006, the Authority entered into an intergovernmental agreement with the County for the billing and collection of stormwater fees. Under the agreement, the Authority's stormwater utility fees are billed with the County's property tax bills. Beginning in 2009, tax-exempt organizations were billed directly by the Authority.

NOTE 11: OPERATING LEASE

The Authority leases its office space under an operating lease. Operating leases do not give rise to property rights or meet other capital lease criteria and, therefore, the related assets and liabilities are not recorded in the financial statements. For 2011, total rent expense for the office space (including common area costs) was



\$199,861. Future minimum lease payments for the lease for the next three years are 2012—\$152,737, 2013—\$158,846, and 2014—\$80,980.

#### NOTE 12: COMMITMENTS

The Authority had commitments of \$483,709 for capital projects at December 31, 2011. Future expenditures for these commitments are expected to be financed through available resources and future revenues.

The financial statements do not include encumbrances. However, encumbrances are recorded for budgetary control purposes. Outstanding encumbrance commitments at December 31, 2011 (excluding those relating to capital projects) amounted to \$45,416.