

June 11, 2020

To Board of Directors
Southeast Metro Stormwater Authority
Centennial, Colorado

Dear Board Members

We have audited the financial statements of the Southeast Metro Stormwater Authority (the Authority) for the year ended December 31, 2019, and have issued our report thereon dated June 11, 2020.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The amount stormwater fees receivable that will be collected in future periods,
- The useful lives used in recognizing depreciation of property (allocating costs of assets to operations over time), and
- The timing and amounts to be paid out for reimbursement agreements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 3, which discusses cash and investments, and
- Note 5, which discusses long-term obligations

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We proposed one reclassification of capital assets from construction in progress to Drainage Improvements. We noted one passed adjustments related to compensated absences.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 11, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

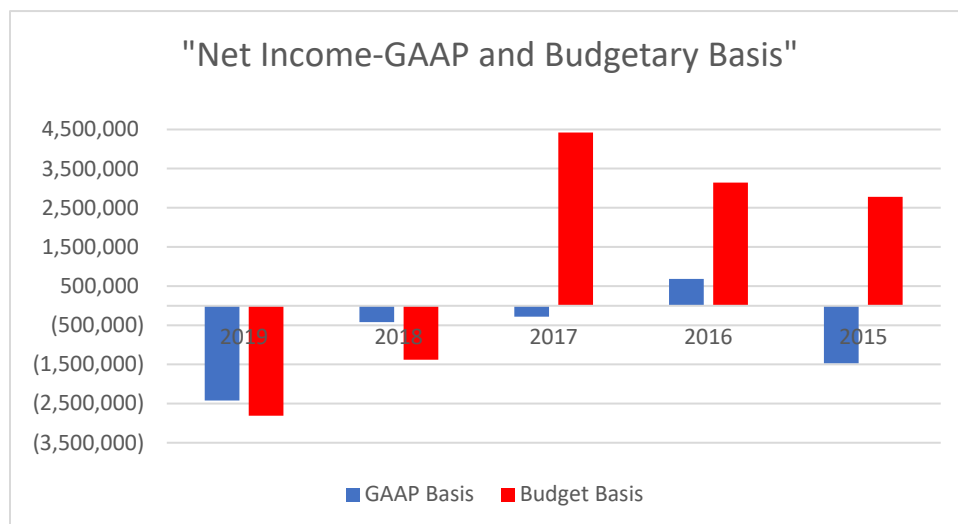
Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Current Year Comments

Losses

The District has incurred losses on both the budgetary and GAAP basis of accounting the last two years as the following graph shows:



The Authority has lost money four of the last five years on a GAAP basis. The GAAP basis losses indicate a potential long-term problem as the result of not collecting enough fees to replace capital assets.

The Budgetary basis losses indicate that the Authority is not receiving enough current year revenues to cover debt service and capital outlay. As the Authority is in a building cycle, this might not be a concern. However, the Board and Management should continue to monitor these trends.

Financial Reporting

Comparative Statements

Most Authorities who report on an enterprise basis, show comparative statements. Users believe two years of a Statement of Financial Position allows them to better assess the financial health of the an entity and two years of Revenues, Expenses and Changes in Net Position helps assess trends in revenues, expenses, operating income and “net income”.

We recommend the Authority consider producing comparative financial statements for the 2020 fiscal year.

Fiduciary Funds

The Governmental Accounting Standards Board (GASB) has delayed the implementation of certain pronouncements due to the COVID-19 pandemic. One of these statements is No. 84 *Fiduciary Activities*. The Authority will need to implement this statement next year. You receive funds from other entities to build capital assets as part of building a stormwater asset. Ultimately these assets belong to the contributing entity. Currently, the Authority records a revenue for amounts received and an expense related to the other entity’s capital assets. This transaction may not meet the criteria for a revenue and expense of the Authority.

We recommend the Authority continue to determine the best way to implement this statement.

Budget

Most enterprise funds we audit have a simpler budgetary basis reconciliation to GAAP. Their reconciliation excludes only capital outlay and debt service principal expenses increased by the amount of depreciation expense. The Authority’s reconciliation contains eight items and is reported on a cash basis.

We recommend that the Authority determine if a simpler budget to actual reconciliation using the modified accrual basis is warranted.

Compensated absences

The compensated absences liability equals more than one month of the Authorities payroll. In addition, approximately one-quarter of the Authorities staff have each accrued more than \$15,000 in vacation and sick leave as of December 31, 2019. One staff member has more than \$30,000 in accrued vacation and sick leave. Each year that balance increases by a minimum of the amount of salary increase received, even if the number of hours earned does not change. For example a 5% raise would result in the amounts owed increasing 5%.

We recommend the Authority determine if additional caps and payout of compensated absences is warranted.

Other Matters

We applied certain limited procedures to management's discussion and analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the budgetary information which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America. The method of preparing this information has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We thank you for this opportunity to be of service to the Southeast Metro Stormwater Authority. We also want to thank Paul Danley, Roxi Jones, Kevin Collins and Vy Nguyen and the Authority's staff for their assistance during the audit.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Southeast Metro Stormwater Authority and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Jason D. Adams, CPA
The Adams Group, LLC