

SOUTHEAST METRO STORMWATER AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007

SOUTHEAST METRO STORMWATER AUTHORITY
FINANCIAL REPORT
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	6
Statement of Revenues, Expenses, and Changes in Net Assets	7
Statement of Revenues and Expenditures—Budget and Actual (non-GAAP Budgetary Basis)	8
Statement of Cash Flows	9
Notes to Financial Statements	10



BONDI & Co. LLC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

44 INVERNESS DRIVE EAST
ENGLEWOOD, COLORADO 80112

www.bondico.com

(303) 799-6826 PHONE
(800) 250-9083 TOLL-FREE

(303) 799-6926 FAX

**Board of Directors
Southeast Metro Stormwater Authority
Centennial, Colorado**

Independent Auditors' Report

We have audited the basic financial statements of the Southeast Metro Stormwater Authority (Authority) for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Metro Stormwater Authority as of December 31, 2007, and the changes in its financial position and its cash flows and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Affiliate Offices Worldwide

**Board of Directors
Southeast Metro Stormwater Authority
Centennial, Colorado
Page 2**

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

June 27, 2008

Bondi & Co. LLC
BONDI & Co. LLC

SOUTHEAST METRO STORMWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

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, 2007. 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 are 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, 2006. 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, 2007, along with comparative information as of December 31, 2006.

	December 31	
	2007	2006
Assets:		
Current assets	\$ 4,344,393	\$ 3,218,268
Capital assets	\$ 3,525,092	-
Total Assets	<u>\$ 7,869,485</u>	<u>\$ 3,218,268</u>
Liabilities:		
Short-term liabilities	1,269,310	1,401,464
Long-term liabilities	2,180,482	2,834,896
Total Liabilities	<u>3,449,792</u>	<u>4,236,360</u>
Net Assets:		
Unrestricted	<u>\$ 4,419,693</u>	<u>\$ (1,018,092)</u>

The Authority's principal current asset at December 31, 2007, is cash of \$4,145,164. In addition, the Authority acquired capital assets of \$3,602,541 during 2007, its first full year of operations. Capital assets net of accumulated depreciation amount to \$3,525,092 as of December 31, 2007. The Authority's liabilities include an operating loan with a balance of \$2,834,896 as of December 31, 2007 (short-term portion of \$654,414; long-term portion of \$2,180,482), as well as accounts payable and accrued expenses of \$510,275, and drainage escrow of \$104,621.

The following is a condensed statement of revenues, expenses, and changes in net assets for the Authority for the years ended December 31, 2007 and 2006.

	December 31,	
	2007	2006
Operating Revenues:		
Storm drainage utility fees	\$ 7,714,244	\$ -
Operating Expenses:		
Expenses except depreciation	3,788,266	1,010,303
Depreciation	77,449	-
Total Operating Expenses	<u>3,865,715</u>	<u>1,010,303</u>
Operating Income (Loss)	<u>3,848,529</u>	<u>(1,010,303)</u>
Other Nonoperating Revenue (Expenses)		
Net nonoperating revenue (expenses)	73,256	(7,789)
Capital Contributions		
Intergovernmental	1,516,000	-
Change in Net Assets	<u>5,437,785</u>	<u>(1,018,092)</u>
Net Assets - Beginning	<u>(1,018,092)</u>	<u>-</u>
Net Assets - Ending	<u>\$ 4,419,693</u>	<u>\$ (1,018,092)</u>

As shown above, net assets increased by \$5,437,785 in 2007 and decreased by \$1,081,092 in 2006. Operating revenues in 2007 were \$7,714,244 in the Authority's first year of operations. Operating expenses in 2007 included \$1,494,012 of personal services, \$2,178,987 of contractual services, and \$115,287 of commodities. Nonoperating revenues and expenses in 2007 included interest revenue of \$194,206 and interest expense of \$172,505.

The following is a condensed statement of budget and actual revenue and expenditures for 2007. 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)
Revenues:				
Stormwater utility fees	\$ 7,372,000	\$ 7,316,083	\$ 7,544,362	\$ 228,279
Capital contributions	3,732,600	1,246,000	1,516,000	270,000
Other	205,457	135,000	245,761	110,761
Total Revenues	11,310,057	8,697,083	9,306,123	609,040
Expenditures:				
Program expenses	1,388,155	1,378,702	1,223,001	155,701
Services, administration, and other	2,427,732	3,661,254	3,249,154	412,100
Loan repayments	1,510,925	1,356,144	1,351,037	5,107
Capital improvement program	4,676,000	4,175,178	2,918,649	1,256,529
Total Expenditures	10,002,812	10,571,278	8,741,841	1,829,437
Excess of Revenue Over Expenditures	\$1,307,245	(\$1,874,195)	\$564,282	\$2,438,477

The most significant variance between the final budget and actual expenditures was for the capital improvement program with expenditures less than budget by \$1,256,529.

Capital Assets

The Authority held \$3,602,541 of capital assets at December 31, 2007, all of which were acquired in 2007. The largest component of capital assets was construction in progress with a balance of \$2,582,652 at the end of 2007.

Long-term Debt

The Authority issued \$3.5 million of long-term debt for operating purposes in 2006. The purpose of this loan is to provide operating capital for the Authority during the initial stages of its operations. Principal payments of \$665,104 were made on the loan in 2007. The final payment is due on August 1, 2011.

During 2006, Arapahoe County and the City of Centennial advanced \$545,239 to the Authority to assist with the startup of its operations. The Authority repaid these obligations in full during 2007.

Economic Factors and Next Year's Budget

Economic conditions have been factored into the development of the 2008 budget. Billed revenues are to be 5% higher in 2008 than 2007 and expenditures are budgeted to increase by 8.9%. Modifications to the budget are anticipated in order to reprogram additional expenditures into the Maintenance and Capital Improvement programs with a corresponding reduction in Services and Administration.

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 Executive Director, Southeast Metro Stormwater Authority, 76 Inverness Drive East., Ste. A, Englewood, CO 80112.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF NET ASSETS

December 31, 2007

ASSETS

Current Assets

Cash	\$4,145,164
Accounts receivable	170,229
Interest receivable	12,159
Prepaid expenses	14,816
Other	<u>2,025</u>

Total Current Assets	<u>4,344,393</u>
----------------------	------------------

Capital Assets

Tenant improvements	318,580
Vehicles and related equipment	278,148
Office furniture, fixtures and equipment	148,319
Computer software and hardware	163,823
Drainage improvements	111,019
Construction in progress	<u>2,582,652</u>
	3,602,541
Less accumulated depreciation	<u>(77,449)</u>

Net Capital Assets	<u>3,525,092</u>
--------------------	------------------

Total Assets	<u>7,869,485</u>
--------------	------------------

LIABILITIES

Current Liabilities

Accounts payable	286,235
Payroll taxes withheld and accrued	45,513
Accrued interest expense	63,076
Accrued salaries, benefits, and compensated absences	115,451
Drainage escrow	104,621
Loan payable	<u>654,414</u>

Total Current Liabilities	<u>1,269,310</u>
---------------------------	------------------

Noncurrent Liabilities

Loan payable	<u>2,180,482</u>
--------------	------------------

Total Liabilities	<u>3,449,792</u>
-------------------	------------------

NET ASSETS

Invested in capital assets	3,525,092
Unrestricted	<u>894,601</u>

Total Net Assets	<u><u>\$4,419,693</u></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, 2007

Operating Revenues	
Storm drainage utility fees	<u>\$7,714,244</u>
Operating Expenses	
Personal services	1,494,012
Contractual services	2,178,987
Commodities	115,267
Depreciation	<u>77,449</u>
Total Operating Expenses	<u>3,865,715</u>
Operating Income	<u>3,848,529</u>
Nonoperating Revenue (Expenses)	
Interest income	194,206
Intergovernmental revenue	15,000
Other revenue	36,555
Interest expense	<u>(172,505)</u>
Total Nonoperating Revenue (Expenses)	<u>73,256</u>
Income Before Capital Contributions	3,921,785
Capital contributions - intergovernmental	<u>1,516,000</u>
Increase in Net Assets	5,437,785
Net Assets--Beginning of Period	<u>(1,018,092)</u>
Net Assets--End of Period	<u><u>\$4,419,693</u></u>

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, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenue				
Stormwater utility fees	\$7,372,000	\$7,316,083	\$7,544,362	\$228,279
Developer contributions	1,200,000	-	-	-
System development fees	300,000	120,000	-	(120,000)
Capital contributions-intergovernmental	2,232,600	1,126,000	1,516,000	390,000
Master planning projects funding	-	15,000	15,000	-
Other revenue	-	-	36,555	36,555
Interest	205,457	120,000	194,206	74,206
Total Revenue	11,310,057	8,697,083	9,306,123	609,040
Expenditures				
Building and space costs	343,877	822,696	771,857	50,839
Capital equipment purchases	-	293,057	270,964	22,093
Capital improvement program	4,676,000	4,175,178	2,918,649	1,256,529
Floodplain & Master Planning Program	-	363,029	337,438	25,591
Loan repayments	1,510,925	1,356,144	1,351,037	5,107
Maintenance Program	1,044,278	489,848	449,629	40,219
Services and administration	2,427,732	2,545,501	2,206,333	339,168
Water Quality Program		525,825	435,934	89,891
Total Expenditures	10,002,812	10,571,278	8,741,841	1,829,437
Excess of Revenue over Expenditures - Budgetary Basis	<u>\$1,307,245</u>	<u>(\$1,874,195)</u>	564,282	<u>\$2,438,477</u>
Reconciliation of actual amounts to GAAP basis:				
Accounts receivable accrual			169,879	
Capital asset expenditures			3,602,541	
Loan repayments			1,210,343	
Depreciation			(77,449)	
Interest expense accrual			<u>(31,811)</u>	
Change in Net Assets - GAAP Basis			<u>\$5,437,785</u>	

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$7,544,337
Payments to and on behalf of employees	(1,333,047)
Payments to providers and suppliers	(2,185,040)
Other receipts	156,176

Net Cash Flows from Operating Activities	4,182,426
--	-----------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Principal payment on long-term loan	(665,104)
Interest payment on long-term loan	(140,694)
Payments on intergovernmental loans	(545,239)

Net Cash Flows from Noncapital Financing Activities	(1,351,037)
---	-------------

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES

Intergovernmental contributions received	1,516,000
Acquisition of capital assets	(3,602,541)

Net Cash Flows from Capital and Related Financing Activities	(2,086,541)
--	-------------

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on short-term investments	194,399
------------------------------------	---------

Net Increase in Cash	939,247
----------------------	---------

Cash -- Beginning of Period	3,205,917
-----------------------------	-----------

Cash -- End of Period	\$4,145,164
-----------------------	-------------

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$3,848,529
Adjustments to reconcile operating income to net cash provided by operating activities	
Intergovernmental nonoperating revenue	15,000
Other nonoperating revenue	36,555
Depreciation	77,449
Changes in assets and liabilities	
Accounts receivable	(170,229)
Other current assets	(16,842)
Accounts payable	126,379
Accrued expenses and other liabilities	265,585

Net Cash Flows From Operating Activities	\$4,182,426
---	-------------

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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's 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, 2007, and the results of its operations and cash flows for the year ended December 31, 2007. 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 not used by the Authority for budget or financial reporting purposes.

The 2007 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.

Receivables

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., drainage improvements), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimate useful life in excess of two years.

Property, plant, equipment, and infrastructure 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	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 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, 2007, the carrying value of the Authority's deposits was \$4,145,164 and the bank balance was \$4,228,454. Of the bank balance, \$100,000 was covered by federal deposit insurance. The remaining \$4,128,454 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, 2007, the Authority's average monthly collected balances were earning interest at the rate of 3.35%.

Note 3: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance 1/1/07	Increases	Decreases	Balance 12/31/07
Capital assets not being depreciated:				
Construction in progress	\$--	\$2,582,652	--	2,582,652
Capital assets being depreciated:				
Tenant improvements	--	318,580	--	318,580

Vehicles and related equipment	--	278,148	--	278,148
Office furniture, fixtures & equipment	--	148,319	--	148,319
Computer software & hardware	--	163,823	--	163,823
Drainage improvements	--	111,019	--	111,019
Total capital assets being depreciated	--	1,019,889	--	1,019,889
Less accumulated depreciation				
Tenant improvements	--	(22,756)	--	(22,756)
Vehicles and related equipment	--	(33,111)	--	(33,111)
Office furniture, fixtures, & equipment	--	(10,595)	--	(10,595)
Computer software & hardware	--	(10,987)	--	(10,987)
Drainage improvements	--	--	--	--
Net capital assets being depreciated	--	942,440	--	942,440
Net capital assets	\$--	\$3,525,092	\$--	\$3,525,092

Note 4: LONG-TERM DEBT

On November 3, 2006, the Authority closed on a \$3,500,000 loan with Tatonka Capital Corporation. The loan was subsequently assigned to Colorado Business Bank. The purpose of the loan is to provide operating capital for the Authority during its initial stages of operations. The loan bears interest at 5.34% and is being amortized over a five-year period. The final payment on the loan is due on August 1, 2011. The loan is secured by the Net Pledged Revenues of the Authority's storm drainage system.

Debt Service Requirements to Maturity

The requirements to amortize the loan to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2008	\$654,414	\$151,384	\$805,798
2009	689,360	116,438	805,798
2010	726,172	79,626	805,798
2011	764,950	40,848	805,798
Totals	<u>\$2,834,896</u>	<u>\$388,296</u>	<u>\$3,223,192</u>

The carrying amount of the Authority's loan consists of \$654,414 current portion, and \$2,180,482 long-term portion. The Authority is in compliance with all requirements of the loan agreement.

Classification of Interest Cost

\$172,505 of interest expense was incurred by the Authority in 2007 all of which was charged to expense.

Long-term Debt Activity

Long-term debt activity for the year ended December 31, 2007, was as follows:

	<u>Balance 1/1/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>
Loan payable	\$3,500,000	\$--	\$665,104	\$2,834,896

NOTE 5: 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 6: PENSION PLAN

The Authority contributes to the Colorado County Officials and Employees Retirement Association (CCOERA) pension plan of 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 2007, the Authority and participating employees each contributed amounts equal to 6% of compensation to the plan. The dollar amount of contributions was \$52,465 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 7: 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 8: 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 9: RELATED PARTY TRANSACTIONS

During 2007, loan payments of \$545,239 were made by the Authority to the County and City.

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 were billed with the County's property tax bills. Tax-exempt organizations will be billed in the same manner. Billing and collection of these fees began in 2007.

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 2007, total rent expense for the office space was \$64,000. Future minimum lease payments for the lease over the next seven years are 2008—\$130,560, 2009—\$135,782, 2010—\$141,214, 2011—\$146,862, 2012—\$152,737, 2013—\$158,846, and 2014—\$80,980.