Draft 4/2/2007

SOUTHEAST METRO STORMWATER AUTHORITY

FINANCIAL REPORT

FOR THE PERIOD BEGINNING SEPTEMBER 19, 2006
AND ENDED DECEMBER 31, 2006

SOUTHEAST METRO STORMWATER AUTHORITY
ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT
TO BE INCLUDED HERE

SOUTHEAST METRO STORMWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

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 period beginning September 19, 2006, and ended December 31, 2006. 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 period from inception to 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. Information for 2005 is blank since the Authority was not in existence.

	December 31	
	2006	2005
Assets:		
Current assets	$ 3,218,268	$ -
Liabilities:		
Short-term liabilities	1,401,464	-
Long-term liabilities	2,834,896	-
Total Liabilities	4,236,360	-
Net Assets:		
Unrestricted	$ (1,018,092)	-

The Authority's only assets at December 31, 2006, are cash of $3,205,917 and interest receivable of $12,351. The cash amount is the result of a $3.5 million operating loan to provide operating capital for the Authority during its initial stages of operations. The Authority's liabilities include the $3.5 million loan (short-term portion of $665,104; long-term portion of $2,834,896), accounts payable and accrued expenses of $191,121, and due to other governments of $545,239. Due to other governments arose from an advance of funds by Arapahoe County and the City of Centennial for the purpose of investigating and determining if the formation of the Authority was feasible.

The following is a condensed statement of revenues, expenses, and changes in net assets for the Authority for the period from inception to December 31, 2006. Amounts have not been presented for 2005 since the Authority was not in existence.

	2006	2005
Operating Expenses:		
Consulting	$ 946,987	$ -
Other	63,316	-
Total Operating Expenses	1,010,303	-
Operating Loss	(1,010,303)	-
Other Nonoperating Revenue (Expenses)		
Net nonoperating revenue (expenses)	(7,789)	-
Change in Net Assets	(1,018,092)	-
Net Assets - Beginning	-	-
Net Assets - Ending	$ (1,018,092)	$ -

As shown above, net assets decreased by $1,081,092 in 2006. Consulting expenses accounted for 94% of operating expenses and there were no operating revenues. Nonoperating revenues and expenses consisted of interest revenue of $23,476 and interest expense of $31,265.

The following is a condensed statement of budget and actual revenue and expenditures for 2006. Both the budget and the actual amounts are presented on the cash basis. The cash 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, the recording of revenues when received rather than when earned, and the recording of expenses when paid rather than when incurred.

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Loan proceeds	$ 3,500,000	$ 3,500,000	$ 3,500,000	$ -
Other	1,217,905	1,217,905	11,125	(1,206,780)
Total Revenues	4,717,905	4,717,905	3,511,125	(1,206,780)
Expenditures:				
Operating expenses	1,270,656	1,270,656	305,208	965,448
Excess of Revenue Over Expenditures	3,447,249	3,447,249	3,205,917	(241,332)

Loan proceeds were equal to the amount budgeted. Budgeted other revenues included $1.2 million of developer contributions. None were received in 2006 but all are expected to be received in 2007. Operating expenses were within budget for 2006. These consisted primarily of consulting services.

Capital Assets

The Authority held no capital assets at December 31, 2006. A significant amount of capital assets are anticipated to be acquired in 2007, primarily from transfers of property and equipment from the Authority's founding governments to the Authority.

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. No payments were made on the loan in 2006. The first payment of $805,798 is due on August 1, 2007, and the final payment is due on August 1, 2011.

Economic Factors and Next Year's Budget

Economic conditions have been factored into the development of the 2006 budget. Revenues and expenses within the Authority's control were projected to be stable. Modifications may be needed if operating revenues are lower than expected.

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, 10730 E. Briarwood Ave., Ste. 100, Centennial, CO 80112.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF NET ASSETS

December 31, 2006

ASSETS	
Current Assets	
Cash and cash equivalents	$3,205,917
Interest receivable	12,351
Total Assets	3,218,268
LIABILITIES	
Current Liabilities	
Accounts payable	159,856
Accrued interest expense	31,265
Due to other governments	545,239
Loan payable	665,104
Total Current Liabilities	1,401,464
Noncurrent Liabilities	
Loan payable	2,834,896
Total Liabilities	4,236,360
NET ASSETS	
Unrestricted	($1,018,092)

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Period Beginning September 19, 2006, and Ended December 31, 2006

Operating Expenses	
Consulting services	$946,987
Legal services	35,955
Management services	22,359
Director fees	4,650
Other operating expenses	352
Total Operating Expenses	1,010,303
Operating Loss	(1,010,303)
Nonoperating Revenue (Expenses)	
Interest income	23,476
Interest expense	(31,265)
Total Nonoperating Revenue (Expenses)	(7,789)
Change in Net Assets	(1,018,092)
Net Assets--Beginning of Period	-
Net Assets--End of Period	($1,018,092)

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

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

For the Period Beginning September 19, 2006, and Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenue				
Loan proceeds	$3,500,000	$3,500,000	$3,500,000	$0
Developer contributions	1,200,000	1,200,000	-	(1,200,000)
Interest	17,905	17,905	11,125	(6,780)
Total Revenue	4,717,905	4,717,905	3,511,125	(1,206,780)
Expenditures				
Salaries and benefits	44,481	44,481	-	44,481
Building and related	130,500	130,500	-	130,500
Field operations	409,750	409,750	-	409,750
Services and administration	245,925	245,925	30,474	215,451
Consultant services	440,000	440,000	274,734	165,266
Total Expenditures	1,270,656	1,270,656	305,208	965,448
Excess of Revenue over Expenditures - Budgetary Basis	$3,447,249	$3,447,249	3,205,917	($241,332)
Reconciliation of actual amounts to GAAP basis:				
Proceeds from loan			(3,500,000)	
Accounts payable accrual			(159,856)	
Due to other governments accrual			(545,239)	
Interest expense accrual			(31,265)	
Interest income accrual			12,351	
Change in Net Assets - GAAP Basis			($1,018,092)	

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF CASH FLOWS

For the Period Beginning September 19, 2006, and Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to providers and suppliers	($305,208)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Loan proceeds received	3,500,000
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on short-term investments	11,125
Net Increase in Cash	3,205,917
Cash -- Beginning of Period	-
Cash -- End of Period	$3,205,917
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	($1,010,303)
Adjustments to reconcile operating income to net cash provided by operating activities	
Changes in assets and liabilities	
Accounts payable	159,856
Due to other governments	545,239
Net Cash Flow From Operating Activities	($305,208)

See accompanying notes to financial statements.

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, 2006, and the results of its operations and cash flows from September 19, 2006 (the date the Authority was formed) through December 31, 2006. 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. The Authority's 2006 budget includes the period from inception through December 31, 2006. 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 budget is prepared on the cash basis of accounting. The cash 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, the recording of revenues when received rather than when earned, and the recording of expenses when paid rather than when incurred.

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 taxpayer 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 irrepealable. 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.

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.

The only component of net assets applicable to the Authority as of December 31, 2006, is the unrestricted component.

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 AND INVESTMENTS

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, 2006, the carrying value of the Authority's deposits was $3,205,917 and the bank balance was $3,508,372. Of the bank balance, $100,000 was covered by federal deposit insurance. The remaining $3,408,372 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, 2006, the Authority's average monthly collected balances were earning interest at the rate of 4.15%.

Note 3: 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:

	Principal	Interest	Total Requirement
2007	$665,104	$140,694	$805,798
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	$3,500,000	$528,990	$4,028,990

The carrying amount of the Authority's loan consists of $665,104 current portion, and $2,834,896 long-term portion. The Authority is in compliance with all requirements of the loan agreement.

Classification of Interest Cost

$31,265 of interest expense was incurred by the Authority in 2006 all of which was charged to expense.

Long-term Debt Activity

Long-term debt activity for the year ended December 31, 2006, was as follows:

	Balance 1/1/06	Additions	Reductions	Balance 12/31/06
Loan payable	$--	$3,500,000	$--	$3,500,000

Note 4: DUE TO OTHER GOVERNMENTS

Prior to the formation of the Authority, both the County and the City advanced funds for the purpose of investigating and determining if the formation of the Authority was feasible. The primary use of these funds was to hire consultants to assist with this effort.

The Board of Directors has acknowledged the contributions from the County and City and has agreed to repay these contributions by no later than December 31, 2007. As of December 31, 2007, the amounts due the County and the City are $345,324 and $199,915, respectively. These amounts are reflected as "due to other governments" in the financial statements.

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: TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, also know 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 7: RELATED PARTY TRANSACTIONS

During 2006, payments of $545,239 were made on behalf of the Authority by the County and City (see Note 4). These amounts are reflected as "due to other governments" in the financial statements.

NOTE 8: 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 will be 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.