SOUTHEAST METRO STORMWATER AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

SOUTHEAST METRO STORMWATER AUTHORITY
FINANCIAL REPORT
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POYSTI
&
ADAMS
LLC
CERTIFIED
PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southeast Metro Stormwater Authority

We have audited the accompanying financial statements of the Southeast Metro Stormwater Authority (Authority) as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

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, 2015, and the respective changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying budgetary information is presented for purposes of additional analysis is not a required part of the basic financial statements.

The accompanying budgetary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Paypte & Adams, LLC

June 3, 2016
Denver, Colorado

SOUTHEAST METRO STORMWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015. 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 position; 2) statement of revenues, expenses, and changes in net position; 3) schedule of revenues and expenditures—budget and actual (non-GAAP budgetary basis); and 4) notes to the financial statements.

Statement of Net Position: The Statement of Net Position presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position: The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the period. All changes in net position 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).

Statement of Revenues and Expenditures—Budget and Actual (Non-GAAP Budgetary Basis): The Authority adopted an appropriated budget for the year ended December 31, 2015. 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 position for the Authority as of December 31, 2015, along with comparative information as of December 31, 2014.

	December 31	
	2015	2014
Assets:		
Current assets	$ 11,193,162	$ 8,019,796
Capital assets	148,312,733	152,605,797
Total Assets	$ 159,505,895	$ 160,625,593
Liabilities:		
Short-term liabilities	$ 3,307,416	$ 2,693,938
Long-term liabilities	5,132,037	5,393,732
Total Liabilities	8,439,453	8,087,670
Net Assets:		
Net investment in capital assets	142,947,757	146,984,583
Unrestricted	8,118,685	5,553,340
Total Net Position	$ 151,066,442	$ 152,537,923

The Authority's principal current asset at December 31, 2015, is cash and cash equivalents of $10,320,625. In addition, the Authority invested about $2.9 million in capital assets during 2015, most of which was for drainage improvement projects. Capital assets net of accumulated depreciation amount to $148,312,733 as of December 31, 2015. The Authority's liabilities as of December 31, 2015, include accounts payable and accrued expenses of $860,310, deferred revenue of $384,127, collateral held of $1,830,040, reimbursement agreements of $1,160,998, and a loan for the new buildings of $4,203,978.

On March 29, 2016, the Authority closed on a loan with Colorado Business Bank in the amount of $7,000,000 for construction of the Piney Creek Project. The loan is "forward funded"; that is, the funds will not be released to the Authority until January of 2017. Accordingly, payments on the loan will not commence until 2017. The term of the loan is seven years and the interest rate is 2.60%.

The following is a condensed statement of revenues, expenses, and changes in net position for the Authority for the years ended December 31, 2015 and 2014.

	December 31,	
	2015	2014
Operating Revenues:		
Storm drainage utility fees	$ 9,672,423	$ 9,657,009
Operating Expenses:		
Expenses except depreciation	4,914,617	5,049,785
Depreciation	7,305,793	6,958,383
Total Operating Expenses	12,220,410	12,008,168
Operating Income (Loss)	(2,547,987)	(2,351,159)
Other Nonoperating Revenue (Expenses)		
Net nonoperating revenue (expenses)	411,967	404,693
Capital Contributions		
Governmental and other	664,539	637,903
Change in Net Position	(1,471,481)	(1,308,563)
Net Position - Beginning	152,537,923	153,846,486
Net Position - Ending	$ 151,066,442	$ 152,537,923

As shown above, net position decreased by $1,471,481 in 2015 and $1,308,563 in 2014. Operating revenues in 2015 were $9,672,423 and $9,657,009 in 2014 – a difference of $15,414. The difference was due to an overall increase in impervious area in 2015. Operating expenses in 2015 included $3,211,181 of personal services, $1,576,164 of contractual services, and $127,272 of commodities. Nonoperating revenues and expenses in 2014 included interest revenue of $3,808, nonoperating revenue of $555,247, and interest expense of $147,088.

The following is a condensed statement of budget and actual revenue and expenditures for 2015. 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	$ 9,557,071	$ 9,557,071	$ 9,423,827	$ (133,244)
Other	864,260	864,260	1,607,721	743,461
Total Revenues	10,421,331	10,421,331	11,031,548	610,217
Expenditures:				
Program expenses	5,387,727	5,527,406	4,833,678	693,728
Building, capital equipment, and other	931,122	1,096,676	719,582	377,094
Reimbursement agreements	230,000	230,000	98,756	131,244
Capital improvement program/asset maintenance	4,300,000	6,955,032	2,600,003	4,355,029
Total Expenditures	10,848,849	13,809,114	8,252,019	5,557,095
Excess of Revenue Over Expenditures	($427,518)	($3,387,783)	$2,779,529	$6,167,312

The most significant variance between the final budget and actual expenditures were for capital improvement program/asset maintenance with expenditures less than budget by $4,355,029. This variance is typical since expenditures frequently lag behind budget due to the length of time required to plan, design, build, and complete a project.

Capital Assets

The Authority held $198,312,105 of capital assets at December 31, 2015. $153,914,870 of these capital assets are drainage improvements acquired from the City, ECCV, IWS, and ACWWA during 2008, 2009 and 2011, and $34,243,686 of drainage improvements constructed by the Authority.

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.

As indicated above, the Authority borrowed $4,400,000 during 2014 from Colorado Business Bank for the construction of its new administration and maintenance buildings.

Economic Factors and Next Year’s Budget

Economic conditions have been factored into the development of the 2016 budget. Modifications to the budget were made in February 2016 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, 7437 South Fairplay Street, Centennial, CO 80112.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF NET POSITION

December 31, 2015

ASSETS	
Current Assets	
Cash and cash equivalents	$10,320,625
Accounts receivable	792,505
Interest receivable	330
Prepaid expenses	79,702
Total Current Assets	11,193,162
Capital Assets	
Land	47,870
Buildings	5,766,131
Tenant improvements	52,000
Vehicles and related equipment	777,984
Maintenance equipment	191,293
Office furniture, fixtures and equipment	417,642
Computer software and hardware	303,697
Drainage improvements	34,243,686
Contributed drainage improvements	153,914,870
Construction in progress	2,596,932
	198,312,105
Less accumulated depreciation	(49,999,372)
Net Capital Assets	148,312,733
Total Assets	159,505,895
LIABILITIES	
Current Liabilities	
Accounts payable	468,894
Accrued salaries, benefits, and compensated absences	388,391
Accrued interest payable	3,025
Deferred revenue	384,127
Collateral held	1,830,040
Building loan	162,939
Reimbursement agreements	70,000
Total Current Liabilities	3,307,416
Noncurrent Liabilities	
Reimbursement agreements	1,090,998
Building loan	4,041,039
Total Noncurrent Liabilities	5,132,037
Total Liabilities	8,439,453
NET POSITION	
Net investment in capital assets	142,947,757
Unrestricted	8,118,685
Total Net Position	$151,066,442

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended December 31, 2015

Operating Revenues	
Storm drainage utility fees	$9,672,423
Operating Expenses	
Personal services	3,211,181
Contractual services	1,576,164
Commodities	127,272
Depreciation	7,305,793
Total Operating Expenses	12,220,410
Operating Income (Loss)	(2,547,987)
Nonoperating Revenue (Expenses)	
Interest income	3,808
Other revenue	555,247
Interest expense	(147,088)
Total Nonoperating Revenue (Expenses)	411,967
Income (Loss) Before Capital Contributions	(2,136,020)
Capital contributions - intergovernmental	277,090
Capital contributions - other	387,449
Decrease in Net Position	(1,471,481)
Net Position--Beginning of Period	152,537,923
Net Position--End of Period	$151,066,442

See accompanying notes to financial statements.

SOUTHEAST METRO STORMWATER AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$9,423,827
Payments to and on behalf of employees	(3,229,211)
Payments to providers and suppliers	(1,592,427)
Other receipts	664,890
Net Cash Flows from Operating Activities	5,267,079
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Principal payments on reimbursement agreements	(98,756)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Intergovernmental and other contributions received	1,048,666
Intergovernmental loan for capital assets	815,081
Principal payments on building loan	(157,482)
Interest payments	(147,200)
Acquisition of capital assets	(2,885,207)
Net Cash Flows from Capital and Related Financing Activities	(1,326,142)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on short-term investments	3,655
Net Increase in Cash and Cash Equivalents	3,845,836
Cash and Cash Equivalents -- Beginning of Period	6,474,789
Cash and Cash Equivalents -- End of Period	$10,320,625
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	($2,547,987)
Adjustments to reconcile operating income to net cash provided by operating activities	
Other nonoperating revenue	555,247
Depreciation	7,305,793
Changes in assets and liabilities	
Accounts receivable	(246,405)
Other current assets	(23,574)
Accounts payable	134,583
Accrued expenses and other liabilities	89,422
Net Cash Flows From Operating Activities	$5,267,079

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 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.

The financial statements present the financial position of the Authority as of December 31, 2015, and the results of its operations and cash flows for the year ended December 31, 2015. The statement of revenues, expenses, and changes in net position 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 2015 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 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.

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. As of December 31, 2015, there is no allowance for doubtful accounts.

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:

Type of Asset	Capitalization Threshold
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:

Capital Asset Type	Years
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 Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position 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 investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position 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 position – This component of net position consists of amounts that do not meet the definition of “restricted” or “net investment in capital assets.”

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, 2015, the carrying value of the Authority's deposits was $ 8,811,655 and the bank balances were $ 8,991,495. Of the bank balances, $250,000 was covered by federal deposit insurance. The remaining $ 8,741,495 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, 2015, the Authority's average monthly collected balances were earning interest at the rate of 0.45%.

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, 2015, 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. The credit quality ratings for ColoTrust as of December 31, 2015, for Moodys, S&P, and Fitch are Aaa, AAAm, and AAA/V-1+, respectively.

Concentration of Credit Risk

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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 has interest rate risk related only to its investment in COLOTRUST. At December 31, 2015, COLOTRUST Prime had a weighted average maturity of 53 days to reset and 94 days to maturity, with an average monthly yield of 0.12%.

During 2015, the Authority invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds ("the Pool"). The

State Securities Commissioner administers and enforces all State statutes governing the Pool. The Pool operates similarly to a money market fund and each share is equal in value to $1.00. The Pool may invest in U.S. Treasury securities and repurchase agreements collateralized by the U.S. Treasury securities.

As of December 31, 2015, the Authority's investment in ColoTrust was as follows:

Description	Carrying Value	Market Value
ColoTrust (demand local government investment pool)	$1,508,970	$1,508,970

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, 2015, was as follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets not being depreciated:				
Land	$47,870	$--	$--	$47,870
Construction in progress	1,639,448	2,600,002	1,642,518	2,596,932
Total Capital Assets Not Being Depreciated	1,687,318	2,600,002	1,642,518	2,644,802
Capital assets being depreciated:				
New building	5,447,848	318,283	--	5,766,131
Tenant improvements	52,000	--	--	52,000
Vehicles and related equipment	765,082	44,749	31,847	777,984
Maintenance equipment	184,387	6,906	--	191,293
Office furniture, fixtures & equipment	374,853	42,789	--	417,642
Computer software & hardware	303,697	--	--	303,697
Drainage improvements	32,601,168	1,642,518	--	34,243,686
Contributed drainage improvements	153,914,870	--	--	153,914,870
Total capital assets being depreciated	193,643,905	2,055,245	31,847	195,667,303
Less accumulated depreciation				
New building	--	(294,630)	--	(294,630)
Tenant improvements	(50,145)	(1,855)	--	(52,000)
Vehicles and related equipment	(508,839)	(90,686)	(31,847)	(567,678)
Maintenance equipment	(128,186)	(14,905)	--	(143,091)
Office furniture, fixtures, & equipment	(175,058)	(36,993)	--	(212,051)
Computer software & hardware	(220,713)	(18,366)	--	(239,079)
Drainage improvements	(1,734,119)	(691,763)	--	(2,425,882)
Contributed drainage improvements	(39,908,366)	(6,156,595)	--	(46,064,961)
Net capital assets being depreciated	150,918,479	(5,250,548)	--	145,667,931
Net capital assets	$152,605,797	$(2,650,546)	$1,642,518	$148,312,733

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 excess capacity 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 excess capacity 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, 2015, is a current liability.

On August 26, 2014, the Authority closed on a loan in the amount of $4,400,000 with Colorado Business Bank for the construction of its new Administration and Maintenance buildings. The loan bears interest at the rate of 3.421% and is payable in quarterly installments of $76,170 over a period of 20 years. The loan is secured by

fees and charges of the Authority. The balance of the loan is $4,203,978 (current portion of $162,939) as of December 31, 2015. Prepayment of the loan is subject to a prepayment fee.

Long-term Debt Activity

Long-term debt activity for the year ended December 31, 2015, was as follows:

	Balance 1/1/15	Additions	Reductions	Balance 12/31/15
Reimbursement agreements	$1,259,754	$--	$98,756	$1,160,998
Building loan	4,361,460	--	157,482	4,203,978
Totals	$5,621,214	$--	$256,238	$5,364,976

Future debt service requirements for the building loan are as follows:

	Principal	Interest	Total Requirement
2016	$162,939	$141,741	$304,680
2017	168,585	136,095	304,680
2018	174,427	130,253	304,680
2019	180,471	124,209	304,680
2020	186,725	117,955	304,680
2021-2025	1,035,280	488,120	1,523,400
2026-2030	1,227,520	295,880	1,523,400
2031-2034	1,068,031	74,530	1,142,561
Totals	$4,203,978	$1,508,783	$5,712,761

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 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 2015, the Authority and participating employees each contributed amounts equal to 6% of compensation to the plan. The dollar amount of employer contributions was $147,635 and $147,635 was contributed by the employees. Forfeitures in the amount of $6,713 were used to offset employer contributions during 2015. 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 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 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: COMMITMENTS

The Authority had commitments of $1,554,684 for capital projects at December 31, 2015. 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, 2015 (excluding those relating to capital projects) amounted to $112,689.

NOTE 12: LITIGATION

In *Southeast Metro Stormwater Authority v. Cherry Creek School District No. 5*, Case No. 2014 CV31698, Arapahoe County District Court, State of Colorado, the Authority filed suit against Cherry Creek School District No. 5 (CCSD) for failure and refusal to pay the Authority's annual stormwater fee beginning in 2013. The Authority filed suit for both a declaratory judgment holding that the CCSD was legally required to pay that fee as well as a judgment for those unpaid fees plus interest. CCSD responded and filed a *Counterclaim* against the Authority alleging that the Authority had been and is being unjustly enriched as a result of the CCSD's stormwater management practices associated with the CCSD's lands located within the Authority's boundaries. The case went to trial in January of 2016 and on June 3, 2016, the Court rendered a favorable decision requiring that CCSD pay all outstanding and future fees as well as interest on the outstanding fees, and ruling against CCSD's counterclaim. It is uncertain if CCSD plans to appeal the Court's ruling.

NOTE 13: SUBSEQUENT EVENT

On March 29, 2016, the Authority closed on a loan agreement with Colorado Business Bank in the amount of $7,000,000 for construction of the Piney Creek Project. The loan is "forward funded"; that is, the funds will not be released to the Authority until January of 2017. Accordingly, payments on the loan will not commence until 2017. The term of the loan is seven years and the interest rate is 2.60%.

SOUTHEAST METRO STORMWATER AUTHORITY

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

For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenue				
Storm drainage utility fees	$9,557,071	$9,557,071	$9,423,827	($133,244)
Interest income	5,500	5,500	3,808	(1,692)
Intergovernmental revenue	-	-	661,217	661,217
Other revenue	858,760	858,760	942,696	83,936
Total Revenue	10,421,331	10,421,331	11,031,548	610,217
Expenditures				
Administration	1,734,455	1,770,411	1,656,367	114,044
Maintenance	1,364,621	1,364,621	1,186,211	178,410
Environmental Resources	1,335,006	1,398,729	1,082,017	316,712
Building & Space	592,662	592,662	531,130	61,532
Capital Purchases	338,460	504,014	188,452	315,562
Reimbursement Agreements	230,000	230,000	98,756	131,244
Engineering and Construction	953,645	993,645	909,083	84,562
Asset Maintenance	1,050,000	2,375,807	1,561,322	814,485
Capital Improvement Program	3,250,000	4,579,225	1,038,681	3,540,544
Total Expenditures	10,848,849	13,809,114	8,252,019	5,557,095
Excess of Revenue over (Under) Expenditures - Budgetary Basis	($427,518)	($3,387,783)	2,779,529	$6,167,312
Reconciliation of actual amounts to GAAP basis:				
Accounts receivable accrual			248,596	
Interest expense accrual			111	
Capital asset expenditures			2,885,207	
Loan principal payments			157,482	
Revenue deferral			(384,127)	
Reimbursement Agreement Payments			98,756	
Depreciation			(7,305,793)	
Salary, benefit, and compensated absences accrual			48,758	
Change in Net Position - GAAP Basis			($1,471,481)	

See accompanying notes to financial statements.