

Colorado Water Resources and Power Development Authority



ANNUAL REPORT FISCAL YEAR 2003

April 30, 2004

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NARRATIVE

The 2003 Annual Report of the Colorado Water Resources and Power Development Authority is provided in accordance with Section 37-95-116, C.R.S. This report includes a summary of the Authority's major activities, financial statements as of December 31, 2003, and the report of the auditor.

DRINKING WATER REVOLVING FUND

With the passage of SB95-083, the General Assembly authorized the initial capitalization of the Drinking Water Revolving Fund ("DWRF") by transferring \$6,200,000 plus interest from the Domestic Water Supply Project Revolving Fund. By the end of 2003, 61 DWRF loans representing over \$205,000,000 of projects had been executed, with an outstanding loan balance of \$178,214,098. (See Appendix B for details.) In addition to the funds (\$6.2 million) appropriated by the General Assembly, the Authority has contributed over \$17.7 million of interest earnings from the Animas-La Plata Escrow Fund. The Animas-La Plata Escrow Fund was restructured in 2001, and as a result, no additional funds will be available for future transfers. These combined funds are used to provide the required 20 percent state match on federal capitalization grants.

In August 1996, the Safe Drinking Water Act was reauthorized with a State Revolving Fund (SRF). On September 30, 1997, Colorado's DWRF Operating Agreement and Capitalization Grant application for \$16,784,100 were approved by the Environmental Protection Agency ("EPA"). On October 1, 1997, Colorado became the first state in the nation to sell DWRF bonds.

The DWRF program is a joint effort with the Water Quality Control Division of the Colorado Department of Public Health and Environment handling the technical aspects of drinking water facility construction and public water system operations, the Division of Local Government of the Colorado Department of Local Affairs conducting financial analyses and outreach activities, and the Authority acting as the financing entity for the program. The Authority and the EPA have signed an Operating Agreement which outlines the financing structure and the procedures for operation of the program.

Projects qualify for assistance by meeting certain criteria developed by the Water Quality Control Division and approved by the Colorado Board of Health. Once these criteria have been met, the Board of Health authorizes projects to be added to the DWRF eligibility list. The DWRF eligibility list is submitted to the General Assembly for final approval through the joint resolution process. In 2004, 190 projects were added and 208 projects were deleted resulting in a list of 229 projects with needs of \$638,874,528. As projects are funded and/or achieve compliance, they are deleted from the eligibility list.

As of December 31, 2003, the EPA has awarded \$83,892,000 in capitalization grants to Colorado. Of this amount \$68,109,425 has been deposited in the DWRF. The remaining \$15,782,575 has been set aside for administration (\$3,355,680), technical assistance to small communities (\$1,396,308), capacity development (\$3,750,000), wellhead protection (\$3,166,700), source water assessment (\$1,678,410), public water system supervision (\$2,285,477) and in kind services (\$150,000). The FY2004 grant is expected to be \$13.7 million. For 2004 the Authority anticipates issuing up to \$15 million in DWRF loans. As of December 31, 2003, all borrowers were current with loan repayments.

The programmatic rating of the Drinking Water Revenue Bonds is "AAA" by all three bond rating agencies.

SMALL WATER RESOURCES PROJECTS PROGRAM

The financing program for the Small Water Resources Projects ("SWRP") provides an economical source of capital for the expansion and rehabilitation of existing public water systems in Colorado. Under this program the Authority provides loans that appreciably lower the costs of borrowing for those municipal governments and special districts having a population greater than one thousand or a customer base of at least 650 taps. In 2002 legislation (HB02-1118) was enacted that eliminated the \$25 million project limitation and established a maximum loan limit of \$100 million per borrower per project. In 2003 legislation (SB 03-236) was enacted to increase the maximum loan limit to \$500 million per borrower per project. Water supply loans over \$500 million require approval from the General Assembly. These loans are fully insured by a private bond insurance company. The SWRP is funded solely by the Authority.

Through 2003, the Authority had issued 48 loans totaling \$149,590,000 with an outstanding balance of \$113,104,583. (See Appendix C for tabulation of project loans.) As of December 31, 2003, all borrowers were current with loan repayments.

WATER POLLUTION CONTROL REVOLVING FUND

In 1988, the Authority's functions were expanded to include the financing of wastewater facilities through the Water Pollution Control Revolving Fund ("WPCRF"). Under the Clean Water Act Amendments of 1987, Congress mandated the conversion of the grant system for wastewater facility construction to a state revolving fund ("SRF"). The SRF's are being capitalized with grants from the EPA. In order for Colorado to obtain funds under this program, the state is required to match each federal dollar with at least 20 cents. The Authority has provided this match on behalf of Colorado with an innovative financing structure utilizing either revenue bonds or the Authority's own resources. In addition, the Authority leverages the capitalization grant and the state match by issuing revenue bonds to fund loans. This leveraging is projected to produce in excess of \$650,000,000 in loans for wastewater facilities through the year 2006.

The WPCRF program is a joint effort with the Water Quality Control Division handling the technical aspects of wastewater facility construction, the Division of Local Government conducting financial analyses and outreach activities, and the Authority acting as the financing entity for the program. The Authority and the EPA have signed an Operating Agreement which outlines the financing structure and the procedures for operation of the program.

Projects qualify for assistance from the WPCRF by meeting certain criteria developed by the Water Quality Control Division and adopted by the Water Quality Control Commission. These projects are then added to the WPCRF eligibility list approved initially by the Water Quality Control Commission and finally by the General Assembly through an annual joint resolution. In 2004, 196 projects were added and 184 projects were deleted resulting in a list of 261 projects with needs of \$1,067,933,877. As projects are funded and/or reach compliance, they are deleted from the eligibility list.

As of December 31, 2003, the EPA has awarded \$177,063,404 through capitalization grants to Colorado, and the Authority has provided \$31,897,603 as state match in the form of bonds and cash. The FY2004 capitalization grant is expected to be \$10.6 million. Through the end of 2003, 107 loans have been executed under the WPCRF Program totaling \$514,334,451. Currently, 101 loans are in place having an outstanding balance of \$405,220,964. (See Appendix D for details.) The Authority anticipates issuing up to \$80,000,000 million in loans in 2004. As of December 31, 2003, all borrowers were current with loan repayments.

The programmatic rating of the Clean Water Revenue Bonds is "AAA" by all three bond rating agencies.

The Clean Water Act will not likely be considered for re-authorization by Congress in 2004. Several controversial issues associated with this legislation remain, but the continuation of, and funding for, the Clean Water SRF program appears to have considerable bipartisan support. Appropriations for this program may be reduced in future years. Legislation involving the Clean Water SRF may be introduced in 2005.

WATER REVENUE BONDS

In response to occasional requests for funding for water-related projects that do not qualify for funding from the DWRP, WPCRF or SWRP programs, the Authority issues bonds under the Water Revenue Bond (WRB) Program. Under this program the Authority assists the borrower with the structuring of the bonds, subsidizes the costs of issuance (similar to SWRP) and will purchase a surety bond in lieu of a cash funded Debt Service Reserve Fund, if available. Through 2003, five loans have been executed under the WRB program totaling \$27,700,000 and having an outstanding loan balance of \$20,135,000. Two loans totaling \$17,800,000 were issued under this program in 2003. As of December 31, 2003, all borrowers were current with loan payments.

Legislation (SB 03-236) passed in 2003 increased the maximum loan amount to \$500 million per borrower per project.

INTERIM LOANS

For the past few years the Authority has issued interim loans funded from cash to borrowers that needed project funds quickly and when there was insufficient demand to warrant a separate bond issue. Borrowers are given up to twenty-four months or until the next programmatic bond issue, whichever comes first, to replace the interim loan with long-term financing. In 2003, one interim loan was issued to the Town of Berthoud for \$2.4 million. This loan will be replaced by a long-term WPCRF loan in 2004. The cumulative obligation for interim loans outstanding at the end of 2003 was \$7,400,000. The "Projected Income and Expenditures" table indicates an interim loan amount of \$5,000,000. This value is intended to represent the amount of funds committed to interim loans that may be carried over to the following year.

ANIMAS-LA PLATA PROJECT / LA PLATA FUTURE PROJECTS ESCROW

The Animas-La Plata Project is a federal reclamation project in southwestern Colorado near Durango. On November 3, 1988, President Reagan signed H.R. 2642 which implemented the Colorado Ute Indian Water Rights Final Settlement Agreement. Under the cost-sharing criteria mandated by the federal government, Colorado (state and local shares) would have contributed \$68,200,000 for construction of the project. The Colorado Water Resources and Power Development Authority placed \$30,000,000 in an escrow account with the State Treasurer on December 11, 1989. By early 1995 these funds had grown with interest earnings to meet the Authority's planned cost-sharing obligation of \$42,400,000. This amount represented over 60% of Colorado's cost-sharing obligation. Excess earnings were transferred to the DWRP to provide the 20% state match for the capitalization of that fund.

From 1992 to 1996 the Bureau of Reclamation was involved with supplemental environmental studies. In April of 1996 the Final Supplement to the 1980 Final Environmental Statement was issued. The EPA raised concerns, among other items, about the water quality impact in New Mexico. The EPA requested and was granted several extensions to close these issues between the two federal agencies.

A federal mediation and reconciliation panel was assembled to resolve these issues in the summer of 1996. In late summer a committee was created by Governor Roy Romer and Lieutenant Governor Gail Schoettler, to work with the federal panel and local representatives to reach a mutual understanding on how to move the Animas-La Plata Project forward. As a result of the Romer/Schoettler process, a "modified" Animas-La Plata Project emerged as the preferred alternative. The "modified" Animas-La Plata Project would cost approximately \$268,000,000, deplete the river by 57,100 acre-feet and incorporate a 260,000 acre-foot Ridges Basin Reservoir. In 1999 a proposal by the Department of the Interior to further limit the size of the reservoir to 90,000 acre-feet was put forth. Hearings on the 90,000 acre-foot reservoir alternative occurred in early 1999.

As a result of the hearings on this "modified" Animas-La Plata Project, Reclamation announced in early 1999 that it would prepare a Draft Supplemental EIS on the smaller reservoir alternative. Hearings on this DSEIS occurred in February 2000. The preferred alternative contains a Ridges Basin Reservoir with a capacity of 120,000 acre-feet with a 30,000 acre-foot conservation pool. A record of decision on the Supplemental EIS was made on September 25, 2000. In December 2000, legislation was passed by Congress to implement this preferred alternative. In early 2001, discussions with the various parties were initiated to move the project forward.

As a result of the December 2000 legislation and discussions with representatives from the Bureau of Reclamation, the Animas-La Plata Water Conservancy District and others, the original cost-sharing and escrow agreements were amended and re-stated in early November 2001. In addition, an agreement was negotiated between the Animas-La Plata Water Conservancy District and the Authority designating the Authority to fund the District's share of the Animas-La Plata project in the amount of \$7,256,750 for 2,600 acre feet of annual depletion. This agreement also dedicated \$15,000,000 to be used for the development of new water storage and/or water supply projects in the La Plata River basin. Construction on the Animas-La Plata project began in 2002 and through 2003 draws have totaled \$2,243,278. The escrow balance at the end of 2003 was \$5,655,368.

An agreement among the Animas-La Plata Water Conservancy District, the La Plata Water Conservancy District and the Authority was executed on November 4, 2002 to establish the \$15,000,000 Future Projects Escrow to assist the District in meeting the La Plata River Compact obligations and to

provide storage for irrigation. This agreement also established procedures for utilizing such funds. As of December 31, 2003, this escrow contained \$15,946,315.

On July 31, 2003, the Bureau of Reclamation issued a notice that the cost estimate for Animas-La Plata had been revised from \$338 million to \$500 million. In a report to the Secretary of the Interior dated November 2003, the Bureau of Reclamation explains that, "...except for the Ridges Basin Dam feature, the 1999 Project construction cost estimate was incomplete and inaccurate for the pumping plant, inlet conduit, gas pipelines and road relocations, and the then newly added Navajo Nation Municipal Pipeline, and failed to include certain additional costs." Negotiations are currently underway to determine the costs to be allocated to the project's cash-paying sponsors.

AMENDMENT NO. 1 - Taxpayers Bill of Rights "TABOR"

Based on the current activities of the Authority, management has determined that the Authority is an "enterprise" under "TABOR" and, therefore, is exempt from Article X, Section 20 of the State Constitution.

FIVE-YEAR PROJECTION

The following table illustrates the Authority's projected income and expenditures for the next five years. The "Beginning Cash Balance" column includes Authority cash (\$31,223,300) and Drinking Water cash (\$8,531,000). The "Income from All Funds" column includes earnings from cash balances in all Authority funds, state match loan repayments from the WPCRF and repayment of interim loans. The costs for "DWRP" and "WPCRF" represent the required 20 percent state match, respectively, for these federally funded programs. The costs for "Interim Loans" represent interim loans made to entities for various projects and are funded from Authority cash. The interim loan values represent funds that may be carried over to the next year. The "SWRP" and "WRB" costs represent cost of issuance subsidy, trustee fees, arbitrage rebate calculation fees, allocated labor costs and marketing. "Administration Costs" include board, staff and operating costs not covered by the DWRP and the WPCRF programs.

The Authority expects to execute WPCRF loans amounting to \$80,000,000 in 2004 and \$40,000,000 per year through 2008. Since the DWRP is handled similarly to the WPCRF, the Authority expects to issue loans amounting to \$15,000,000 in 2004 and \$20,000,000 per year thereafter through 2008.

PROJECTED INCOME AND EXPENDITURES

Year	Beginning Cash Balance	Income from All Funds	DWRP Costs	WPCRF Costs	Interim Loans	SWRP & WRB Costs	Admin. Costs	Ending Balance
2004	\$ 39,754,300	\$12,629,844	\$2,740,000	\$2,120,000	\$5,000,000	\$1,840,000	\$567,000	\$40,117,144
2005	\$ 40,117,144	\$10,679,844	\$2,740,000	\$2,120,000	\$5,000,000	\$1,000,000	\$595,350	\$39,341,637
2006	\$ 39,342,137	\$10,679,844	\$2,740,000	\$2,120,000	\$5,000,000	\$2,000,000	\$624,743	\$37,537,239
2007	\$ 37,537,239	\$10,679,844	\$2,740,000	\$2,120,000	\$5,000,000	\$1,000,000	\$656,373	\$36,700,709
2008	\$ 36,700,709	\$10,679,844	\$2,740,000	\$2,120,000	\$5,000,000	\$1,000,000	\$689,192	\$35,831,361

APPENDIX A

Board of Directors
Officers and Staff

BOARD OF DIRECTORS

The members of the Board of Directors of the Authority as of December 31, 2003, are listed below:

For terms expiring October 1, 2003:

*Robert Carlstrom of Walden, Colorado, Republican, to serve as a representative of the North Platte Drainage Basin.

*Jim Hokit of Montrose, Colorado, Republican, to serve as a representative of the Gunnison-Uncompahgre Drainage Basin; and as an individual experienced in planning and developing water projects.

For terms expiring October 1, 2004:

Sara Duncan of Denver, Colorado, Democrat, to serve as an individual familiar with the water problems of the City and County of Denver and as an attorney experienced with water law; and

Louis Rinaldo of Sterling, Colorado, Democrat, to serve as a representative of the South Platte Drainage Basin and as an individual experienced in water project financing.

For terms expiring October 1, 2005:

Thomas R. Sharp of Steamboat Springs, Colorado, Republican, to serve as a representative of the Yampa-White Drainage Basin and as an individual experienced in the planning and development of water projects; and

Ann E. Nichols of Manitou Springs, Colorado, Republican, to serve as a representative of the Arkansas Drainage Basin.

For terms expiring October 1, 2006:

Richard S. Pryor of Grand Junction, Colorado, Republican, to serve as a representative of the Main Colorado Drainage Basin. Mr. Pryor resigned from the Board effective March 1, 2004. His replacement has not yet been appointed.

Steven C. Harris of Durango, Colorado, Democrat, to serve as a representative of the San Miguel-Dolores-San Juan Drainage Basin; and as an individual experienced in engineering aspects of water projects; and

Randall K. Palmgren of Center, Colorado, Democrat, to serve as a representative of the Rio Grande Drainage Basin. In December 1999, Mr. Palmgren replaced Mr. Jack Kuntz who resigned.

* In February 2004, the Senate confirmed the reappointment of Messrs. Carlstrom and Hokit for terms expiring October 1, 2007.

OFFICERS

Officers as of December 31, 2003

Chair	Ann Nichols
Vice Chair	Robert Carlstrom
Secretary/Treasurer	Richard S. Pryor

STAFF

As of April 30, 2004

Executive Director	Daniel L. Law
Director of Finance	Michael W. Brod
Controller	Duane Dohrer
Office Manager	Carolyn Simon
Senior Financial Analyst	Keith S. McLaughlin
Financial Analyst	Jim Griffiths
Financial Analyst	Jamie Grisinger
Senior Accountant	Claudia L. Walters
Senior Accountant	Valerie Lovato
Accountant	Justin Noll
Accounting Technician	Teri Saloga
Record Systems Clerk/Secretary	Sabrina Speed

APPENDIX B

DWRF Loan Status as
of December 31, 2003

Colorado Water Resources and Power Development Authority
Drinking Water Revolving Fund (DWRF)
Loan Status Report
As of December 31, 2003

Bond Issue / Loan Type	Borrower	Outstanding Balance	Current	Original / Amended Amount	Loan Rate	Loan Date	Final Payment Date
Leveraged Loans							
97A	Arapahoe Estates Water Dist	783,491	Yes	1,048,333	4.390%	04/15/00	08/01/20
99A	Aurora, City of	11,597,417	Yes	14,999,899	4.400%	04/15/00	08/01/20
98A	Buena Vista, Town of	1,048,261	Yes	1,324,120	4.410%	04/15/00	08/01/20
97A	Englewood, City of	12,004,472	Yes	15,292,636	4.600%	04/15/00	08/01/22
00A	Evergreen Metropolitan Dist.	4,935,834	Yes	5,577,982	4.400%	04/15/00	06/01/20
02A	Evergreen Metropolitan Dist.	1,953,806	Yes	2,036,130	4.000%	04/01/02	08/01/22
03B	Florence, City of	12,996,314	**	12,999,093	4.020%	04/01/02	08/01/22
97A	Fort Collins, City of	7,679,177	Yes	10,125,300	3.990%	04/01/02	08/01/22
99A	Fort Collins, City of	4,092,809	Yes	4,998,395	4.000%	04/01/02	08/01/22
98A	Fort Morgan, City of	12,565,429	Yes	15,433,355	3.030%	06/01/03	08/01/24
00A	Fountain Valley Authority	6,714,524	Yes	7,607,966	3.110%	06/01/03	08/01/23
03A	Fountain Valley Authority	3,221,862	Yes	3,221,862	3.030%	06/01/03	08/01/24
99A	Glenwood Springs, City of	4,032,685	Yes	4,999,017	3.510%	11/01/03	06/01/25
99A	Grand County W&SD	2,490,701	Yes	2,998,566	4.150%	10/01/97	08/01/17
02A	Grand Junction, City of	3,555,747	Yes	3,566,522	4.140%	10/01/97	08/01/18
99A	Greeley, City of	12,618,239	Yes	14,999,038	4.120%	10/01/97	06/01/17
02A	Idaho Springs, City of	2,240,700	Yes	2,339,797	4.010%	06/01/98	08/01/18
99A	Julesburg, Town of	836,120	Yes	994,600	4.020%	06/01/98	06/01/19
02A	La Junta, City of	9,801,345	Yes	9,812,211	3.633%	05/01/99	08/01/14
99A	Left Hand Water Dist.	5,407,268	Yes	6,571,538	3.808%	05/01/99	06/01/19
00A	Limon, Town of	1,272,895	Yes	1,440,809	3.773%	05/01/99	04/01/18
03A	Longmont, City of	14,998,044	Yes	14,998,044	3.783%	05/01/99	08/01/18
03A	Lyons, Town of	4,915,599	Yes	4,915,599	3.802%	05/01/99	08/01/19
00A	Pueblo Board of Waterworks	9,366,012	Yes	9,558,795	3.809%	05/01/99	08/01/19
00A	Westminster, City of	12,961,778	Yes	14,998,357	3.802%	05/01/99	05/15/19
Total Leveraged Loans		164,090,529		186,857,963			
Federal Direct Loans							
DF	Basalt, Town of	929,392	Yes	948,246	4.000%	12/19/02	11/01/22
DF	Chatfield South Water Dist.	602,041	Yes	728,500	4.500%	07/13/98	05/01/18
DF	Craig, City of	203,537	Yes	450,000	4.000%	12/15/00	11/01/05
DF	Dillon, Town of	949,659	Yes	1,000,000	4.000%	10/18/02	11/01/12
DF	Grand Lake, Town of	392,544	Yes	495,000	4.500%	10/29/97	11/01/17
DF	Hayden, Town of	882,641	Yes	1,000,000	4.000%	04/30/02	11/01/22
DF	Left Hand W&SD	154,664	Yes	188,700	4.500%	09/11/98	05/01/18
DF	Mustang Water Authority	700,000	**	700,000	4.000%	12/08/03	05/01/24
DF	Oak Creek, Town of	981,198	**	981,198	4.000%	11/18/03	11/01/23
DF	Ouray, City of	1,000,000	**	1,000,000	4.000%	12/19/03	05/01/24
DF	Sedalia W&SD	289,391	Yes	326,000	4.500%	03/09/00	11/01/19
DF	Springfield, Town of	308,786	Yes	349,471	* 4.500%	07/28/00	05/01/20
DF	Thunderbird W&SD (Loan #1)	269,203	Yes	285,000	4.500%	06/01/99	05/01/19
DF	Thunderbird W&SD (Loan #2)	387,708	Yes	400,000	4.000%	08/27/02	11/01/22
DF	Wellington, Town of	954,660	Yes	1,000,000	4.000%	11/01/01	05/01/22
DF	Westwood Lakes Water District	491,722	Yes	500,000	4.000%	05/15/03	05/01/23
DF	Woodland Park, City of	770,121	Yes	800,000	4.000%	03/13/02	05/01/22
Total Federal Direct Loans		10,267,266		11,152,114			

Colorado Water Resources and Power Development Authority
 Drinking Water Revolving Fund (DWRF)
 Loan Status Report
 As of December 31, 2003

Bond Issue / Loan Type	Borrower	Outstanding Balance	Current	Original / Amended Amount	Loan Rate	Loan Date	Final Payment Date
State Direct Loans							
DS	Baca Grande W&SD	122,391	Yes	500,000	4.500%	02/01/96	12/01/05
DS	Bayfield, Town of	263,535	Yes	350,000	4.500%	11/15/96	09/01/16
DS	Elizabeth, Town of	360,118	Yes	500,000	4.500%	10/01/95	01/01/15
DS	Empire, Town of	232,656	Yes	331,432	4.500%	08/24/95	03/01/16
DS	Fairplay, Town of (Loan #1)	171,269	Yes	250,000	4.500%	08/01/95	06/01/15
DS	Fairplay, Town of (Loan #2)	157,438	Yes	200,000	4.500%	07/30/97	12/01/17
DS	Firestone, Town of	28,329	Yes	95,000	4.500%	06/13/96	06/01/06
DS	Idaho Springs, City of	395,685	Yes	500,000	4.500%	10/15/97	05/01/17
DS	Idledale W&SD	172,622	Yes	250,000	4.500%	07/10/95	03/01/15
DS	Lake Creek Metropolitan Dist.	342,994	Yes	500,000	4.500%	01/12/96	09/01/15
DS	Lochbuie, Town of	259,343	Yes	351,889	* 4.500%	08/28/96	09/01/16
DS	Lyons, Town of	383,372	Yes	500,000	4.500%	08/19/96	06/01/17
DS	Minturn, Town of	210,591	Yes	300,000	4.500%	08/11/95	03/01/16
DS	Nunn, Town of	245,610	Yes	330,260	4.500%	08/12/96	12/01/16
DS	Redstone W&SD	327,706	Yes	410,000	4.500%	12/01/97	11/01/17
DS	Westlake W&SD	182,645	Yes	250,000	4.500%	08/19/97	05/01/17
Total State Direct Loans		3,856,303		5,618,581			
TOTALS DWRF Loans		178,214,098		203,628,658			

* Original loan amount differs from amount stated on the loan agreement due to subsequent amendments. Amendment details are located in various Authority files.

** Scheduled loan repayments have not commenced.

DWRF Loans Paid in Full or Defeased As of December 31, 2003						
Bond Issue / Loan Type	Borrower	Original/ Amended Loan Amount	Loan Date	Date Defeased and/or Paid in Full		
SD	Fraser, Town of	\$200,000	04/15/96	Paid in Full 08/16/01		
DF	Julesburg, Town of	\$693,000	05/01/99	Paid in Full 12/15/00		
DF	La Junta,	\$490,000	11/01/99	Paid in Full 11/14/03		
Total Loans Paid in Full or Defeased		\$1,383,000				

Summary			
	Outstanding Balance	Original/Amnd Balance	Number of Loans
Total Loans Outstanding	\$178,214,098	\$203,628,658	58
Total Loans Defeased or Paid in Full		1,383,000	3
Total for DWRF Program	178,214,098	205,011,658	61

APPENDIX C

SWRP Loan Status as
of December 31, 2003

Colorado Water Resources and Power Development Authority
Small Water Resources Projects (SWRP)
Loan Status Report
As of December 31, 2003

Bond Issue / Loan Type	Borrower	Outstanding Balance	Current	Original / Amended Amount	Loan Rate	Loan Date	Final Payment Date
Leveraged Loans							
94A	Berthoud, Town of	487,500	Yes	1,030,000	5.390%	04/01/94	10/01/09
92A	Brush, City of	595,000	Yes	810,000	6.610%	04/01/92	10/01/12
96A	Canon City, City of	3,245,833	Yes	4,600,000	5.280%	02/01/96	10/01/15
94B	Carbondale, Town of	1,360,000	Yes	1,910,000	6.150%	10/01/94	10/01/15
92B	Central Weld County Water Dist.	886,667	Yes	1,540,000	5.580%	09/15/92	10/01/12
03A	Clifton WD	5,555,000	**	5,555,000	4.170%	10/01/03	10/01/23
98A	Dillon, Town of	125,000	Yes	815,000	3.870%	09/15/98	10/01/04
02A	Eagle River W&SD	4,400,000	Yes	4,560,000	4.740%	06/01/02	10/01/22
90A	Eagle River W&SD	991,250	Yes	2,000,000	7.190%	10/01/90	10/01/10
03A	Eaton, Town of	2,530,000	**	2,530,000	3.990%	10/01/03	10/01/23
91A	Edwards Metropolitan Dist.	625,000	Yes	1,225,000	6.820%	07/15/91	10/01/10
90A	Estes Park, Town of	1,095,000	Yes	2,155,000	7.190%	10/01/90	10/01/10
91A	Estes Park, Town of	665,000	Yes	1,200,000	6.840%	07/15/91	10/01/11
90A	Fort Collins - Loveland Water Dist.	1,285,000	Yes	2,565,000	7.180%	10/01/90	10/01/10
92A	Fort Lupton, City of	1,790,000	Yes	3,000,000	6.540%	04/01/92	10/01/12
94A	Fort Morgan, City of	1,660,833	Yes	2,500,000	5.650%	04/01/94	10/01/14
92B	Glenwood Springs, City of	1,580,000	Yes	2,700,000	5.580%	09/15/92	10/01/12
94A	Gypsum, Town of	476,250	Yes	715,000	5.650%	04/01/94	10/01/14
96A	Johnstown, Town of	1,327,500	Yes	1,785,000	5.310%	02/01/96	10/01/16
92A	La Salle, Town of	1,095,000	Yes	1,780,000	6.550%	04/01/92	10/01/12
92B	Little Thompson Water Dist.	2,232,500	Yes	4,800,000	5.570%	09/15/92	10/01/08
92A	Louisville, City of	4,380,000	Yes	7,500,000	6.540%	04/01/92	10/01/12
91A	Minturn, Town of	225,000	Yes	400,000	6.850%	07/15/91	10/01/11
92B	Minturn, Town of	45,000	Yes	100,000	5.330%	09/15/92	10/01/12
97A	Monument, Town of	1,425,000	Yes	1,800,000	5.370%	06/01/97	10/01/17
96B	Morgan County Quality Water Dist.	350,000	Yes	1,040,000	6.340%	02/01/96	10/01/06
98A	Morgan County Quality Water Dist.	2,440,000	Yes	2,950,000	4.650%	09/15/98	10/01/18
92B	Mount Werner W&SD	2,665,833	Yes	4,630,000	5.580%	09/15/92	10/01/12
01A	North Weld County Water Dist.	14,902,500	Yes	15,510,000	4.860%	01/15/01	10/01/23
90A	North Weld County Water Dist.	1,520,000	Yes	3,000,000	7.190%	10/01/90	10/01/10
92B	North Weld County Water Dist.	601,250	Yes	1,055,000	5.580%	09/15/92	10/01/12
98A	North Weld County Water Dist.	4,085,000	Yes	5,000,000	4.650%	09/15/98	10/18/18
00A	Parker W&SD	12,526,250	Yes	13,365,000	5.710%	02/15/00	10/01/19
02A	Parker W&SD	10,055,000	Yes	10,055,000	5.210%	06/01/02	10/01/22
94A	Parker W&SD	393,750	Yes	600,000	5.650%	04/01/94	10/01/14
97A	Parker W&SD	3,855,000	Yes	4,925,000	5.370%	06/01/97	10/01/17
94A	Platteville, Town of	662,500	Yes	990,000	5.650%	04/01/94	10/01/14
94B	Project 7 Water Authority	2,940,833	Yes	4,100,000	6.150%	10/01/94	10/01/15
03A	Rifle, City of	1,525,000	**	1,525,000	3.960%	10/01/03	10/01/23
94B	Rifle, City of	835,833	Yes	1,295,000	6.100%	10/01/94	10/01/14
97A	Roxborough Park Metropolitan Dist.	2,325,000	Yes	3,000,000	5.340%	06/01/97	10/01/16
91A	Steamboat Springs, City of	655,000	Yes	1,175,000	6.850%	07/15/91	10/01/11
00A	Upper Eagle Regional Water Auth.	10,682,500	Yes	10,745,000	5.770%	02/15/00	10/01/20
Total Leveraged Loans		113,104,583		144,535,000			
TOTAL SWRP Loans		113,104,583		144,535,000			

** Scheduled loan repayments have not commenced.

Colorado Water Resources and Power Development Authority
 Small Water Resources Projects (SWRP)
 Loan Status Report
 As of December 31, 2003

SWRP Loans Defeased and/A16or Paid in Full As of December 31, 2003						
Bond Issue / Loan Type	Borrower	Original/ Amended Loan Amount		Loan Date		Date Defeased and/or Paid in Full
90A	East Dillon Water Dist.	\$825,000		10/01/90		Paid in Full 10/03/02
90A	Evans, City of	\$300,000		10/01/90		Paid in Full 10/03/00
90A	Upper Eagle Regional Water Auth	\$1,000,000		10/01/90		Defeased 07/13/95
92A	Avon Metropolitan Dist.	\$930,000		04/01/92		Defeased 02/15/96
94B	Upper Eagle Regional Water Auth	\$2,000,000		10/01/94		Defeased 07/13/95
Total Loans Paid in Full or Defeased		\$5,055,000				

Summary			
	Outstanding Balance	Original/Amnd Balance	Number of Loans
Total Loans Outstanding	113,104,583	144,535,000	43
Total Loans Defeased and/or Paid in Full		5,055,000	5
Total for SWRP Program	113,104,583	149,590,000	48

APPENDIX D

WPCRF Loan Status as
of December 31, 2003

Colorado Water Resources and Power Development Authority
Water Pollution Control Revolving Fund (WPCRF)

Loan Status Report
As of December 31, 2003

Bond Issue / Loan Type	Borrower	Outstanding Balance	Current	Original / Amended Amount	Loan Rate	Loan Date	Final Payment Date
Leveraged Loans							
94A	Alamosa, City of	1,511,312	Yes	3,197,216	4.660%	05/15/00	08/01/20
99A	Aurora, City of	18,553,478	Yes	24,124,366	4.650%	05/15/00	08/01/20
02A	Berthoud, Town of	6,325,000	Yes	6,325,000	4.640%	05/15/00	08/01/19
02A	Black Hawk-Central City San Dist.	23,225,197	Yes	24,107,369	3.990%	05/01/01	08/01/20
97A	Breckenridge San Dist.	6,169,111	Yes	8,093,617	4.020%	05/01/01	06/01/21
95A	Brighton, City of	3,737,973	Yes	5,080,484	3.990%	05/01/01	08/01/20
98A	Buena Vista San Dist.	3,051,996	Yes	3,896,505	4.040%	05/01/01	08/01/21
97A	Carbondale, Town of	1,017,946	Yes	2,327,490	4.020%	05/01/01	08/01/21
90A	Castle Rock, Town of	2,021,224	Yes	4,319,911	4.010%	05/01/01	08/01/21
03A	Colorado City Metro District	1,878,538	Yes	1,878,538	4.020%	05/01/01	08/01/21
98B	Colorado Springs, City of	19,483,420	Yes	22,204,270	4.010%	05/01/01	08/01/21
01A	Cortez San Dist.	9,015,000	Yes	9,775,000	3.850%	05/01/02	08/01/23
95A	Craig, City of	732,996	Yes	1,096,820	3.710%	05/01/02	08/01/22
96A	Crested Butte, Town of	1,858,320	Yes	2,499,120	3.620%	05/01/02	08/01/24
02B	Denver Southeast Suburban W&SD	6,750,000	Yes	7,045,000	3.790%	05/01/02	06/01/22
89A	Denver Southeast Suburban W&SD	3,809,008	Yes	6,905,000	3.710%	05/01/02	08/01/22
92A	Eagle River W&SD	4,459,624	Yes	7,368,840	3.680%	05/01/02	08/01/21
95A	Eagle River W&SD	4,082,130	Yes	6,099,183	3.210%	10/01/02	08/01/23
98A	Eagle River W&SD	13,847,288	Yes	17,685,396	3.620%	10/01/02	08/01/25
97A	Eagle, Town of	1,776,345	Yes	2,345,204	3.220%	10/01/02	08/01/23
91A	Englewood, City of	7,714,157	Yes	12,750,000	3.260%	05/01/03	08/01/24
97A	Erie, Town of	1,388,972	Yes	1,821,690	3.280%	05/01/03	08/01/24
98A	Evans, City of	903,555	Yes	1,141,617	3.250%	05/01/03	08/01/24
01A	Fort Collins, City of	8,902,500	Yes	9,845,000	4.634%	12/01/89	08/01/11
92B	Fort Collins, City of	14,040,268	Yes	24,540,580	5.202%	06/15/90	08/01/10
92A	Fort Lupton, City of	2,495,857	Yes	4,200,000	4.642%	11/15/90	08/01/12
95A	Fort Morgan, City of	6,409,589	Yes	9,146,685	4.642%	11/15/90	08/01/12
96A	Fountain San Dist.	1,248,555	Yes	1,716,099	4.642%	11/15/90	08/01/12
01A	Fraser San Dist.	2,250,000	Yes	2,445,000	4.576%	05/01/91	04/01/11
99A	Fremont San Dist.	7,090,798	Yes	8,094,568	5.174%	06/15/92	08/01/13
94A	Genesee W&SD	943,675	Yes	1,498,152	5.174%	06/15/92	08/01/13
99A	Grand County W&SD	3,310,883	Yes	3,999,978	4.045%	07/15/92	09/01/14
94A	Greeley, City of	10,623,592	Yes	13,457,960	3.965%	07/15/92	08/01/12
96A	Idaho Springs, City of	1,146,596	Yes	1,541,237	3.768%	08/01/94	08/01/09
01A	Lafayette, City of	7,656,954	Yes	7,861,139	4.863%	08/01/94	08/01/14
91A	Littleton, City of (G.O.)	4,688,998	Yes	7,750,000	4.973%	08/01/94	08/01/14
91A	Littleton, City of (Revenue)	3,025,580	Yes	5,000,694	4.892%	08/01/94	08/01/14
92B	Longmont, City of	1,727,814	Yes	3,500,000	4.621%	08/01/94	08/01/09
02A	Mesa County	12,825,000	Yes	13,490,000	4.578%	05/01/95	08/01/15
91B	Metro Wastewater Reclamation Dist.	11,095,189	Yes	21,910,000	4.578%	05/01/95	08/01/15
03A	Milliken, Town of	5,897,275	Yes	5,897,275	4.583%	05/01/95	08/01/15
01A	Mount Crested Butte W&SD	4,767,855	Yes	5,161,581	4.587%	05/01/95	08/01/15
96A	Mount Crested Butte W&SD	1,014,600	Yes	1,399,080	4.576%	05/01/95	08/01/15
00A	Parker W&SD	10,707,258	Yes	12,063,546	4.590%	05/01/95	08/01/15
01A	Parker W&SD	4,543,308	Yes	4,913,424	4.727%	06/01/96	08/01/16
02B	Parker W&SD	14,112,800	Yes	14,112,800	4.711%	06/01/96	08/01/15
94A	Parker W&SD	1,118,360	Yes	1,781,883	4.742%	06/01/96	08/01/16
97A	Parker W&SD	2,492,425	Yes	3,271,642	4.740%	06/01/96	08/01/15
01A	Plum Creek Wastewater Authority	23,670,000	Yes	25,525,000	4.534%	05/01/97	08/01/17
02B	Plum Creek Wastewater Authority	3,240,000	Yes	3,390,000	4.216%	05/01/97	08/01/07
03A	Pueblo, City of	8,402,620	Yes	8,402,620	4.533%	05/01/97	08/01/17
02A	South Adams County W&SD	6,262,500	Yes	6,270,000	4.539%	05/01/97	08/01/17
01A	Steamboat Springs, City of	5,445,894	Yes	5,895,654	4.543%	05/01/97	08/01/17
95A	Steamboat Springs, City of	1,045,924	Yes	1,563,550	4.534%	05/01/97	08/01/16
99A	Steamboat Springs, City of	2,469,577	Yes	2,935,636	4.543%	05/01/97	06/01/17
97A	Sterling, City of	1,857,248	Yes	2,499,524	3.960%	04/01/98	08/01/17

Colorado Water Resources and Power Development Authority
Water Pollution Control Revolving Fund (WPCRF)
Loan Status Report
As of December 31, 2003

Bond Issue / Loan Type	Borrower	Outstanding Balance	Current	Original / Amended Amount	Loan Rate	Loan Date	Final Payment Date
00A	Summit County	15,149,258	Yes	17,086,830	3.940%	04/01/98	08/01/16
Leveraged Loans (continued)							
00A	Three Lakes W&SD	5,715,360	Yes	6,498,576	4.030%	04/01/98	08/01/18
98A	Trinidad, City of	5,447,820	Yes	6,670,909	3.990%	04/01/98	08/01/18
02A	Wellington, Town of	4,642,113	Yes	4,826,281	3.980%	04/01/98	06/01/17
97A	Westminster, City of	10,560,278	Yes	13,246,525	4.060%	04/01/98	05/15/19
98A	Westminster, City of	3,092,534	Yes	4,085,697	4.040%	07/01/99	08/01/14
94A	Windsor, Town of	1,959,808	Yes	3,998,853	4.200%	07/01/99	08/01/19
95A	Winter Park W&SD	2,147,664	Yes	3,050,000	4.170%	07/01/99	08/01/18
02A	Winter Park West W&SD	2,308,917	Yes	2,406,249	4.200%	07/01/99	08/01/19
Total Leveraged Loans		390,865,831		489,037,863			
Direct Loans							
DF	Baca Grande W&SD	759,550	Yes	800,000	4.000%	12/20/01	06/01/22
DF	Broomfield, City of	1,899,121	Yes	2,514,119	4.710%	12/05/96	09/01/16
DF	Byers W&SD	358,505	Yes	435,000	4.500%	08/28/98	05/01/18
DF	Columbine W&SD	367,700	Yes	424,230	* 4.500%	03/31/00	11/01/15
DF	Durango West Metropolitan Dist.	225,879	Yes	500,000	4.500%	07/29/91	07/15/11
DF	East Alamosa W&SD	108,881	Yes	180,000	4.500%	12/02/98	11/01/18
DF	Erie, Town of	401,847	Yes	500,000	4.500%	10/08/97	08/01/17
DF	Evans, City of	336,611	Yes	396,249	* 4.500%	11/16/98	02/01/19
DF	Fort Lupton, City of	124,534	Yes	200,000	5.170%	01/12/94	09/01/13
DF	Fruita, City of	74,545	Yes	155,435	* 4.500%	04/27/95	03/01/15
DF	Holyoke, City of	391,409	Yes	489,700	4.500%	12/01/97	11/01/17
DF	Julesburg, Town of	777,585	Yes	800,000	4.000%	05/15/02	11/01/22
DF	Kersey, Town of	144,240	Yes	163,000	4.500%	12/29/99	05/01/20
DF	La Junta, City of	317,152	Yes	358,400	4.500%	10/15/99	05/01/20
DF	Las Animas, City of	886,554	Yes	1,070,000	4.500%	11/12/98	11/01/18
DF	Left Hand W&SD (Loan #1)	106,617	Yes	126,300	4.500%	03/05/99	11/01/18
DF	Left Hand W&SD (Loan #2)	75,732	Yes	84,000	4.500%	09/20/00	05/01/20
DF	Log Lane Village, Town of	179,300	Yes	250,000	4.500%	06/01/95	06/01/16
DF	Lyons, Town of	384,139	Yes	506,311	* 4.500%	10/07/96	06/01/17
DF	Manzanola, Town of	62,559	Yes	80,360	4.500%	06/01/97	05/01/17
DF	Monte Vista, Town of	829,322	Yes	968,000	4.500%	09/01/99	05/01/19
DF	Montrose County	88,556	Yes	257,919	* 4.500%	10/30/92	07/01/13
DF	Mountain Range Shadows	695,760	Yes	1,721,489	* 3.150%	12/01/89	06/15/10
DF	Mountain W&SD	73,259	Yes	200,000	1.431%	04/17/90	08/01/10
DF	New Castle, Town of	400,861	Yes	917,076	4.500%	01/01/99	05/01/19
DF	Niwot San Dist.	924,099	Yes	1,000,000	4.000%	02/16/01	05/01/21
DF	Nucla San Dist.	83,839	Yes	180,000	1.500%	05/11/92	04/30/12
DF	Ordway, Town of	263,616	Yes	350,000	4.500%	10/15/96	09/01/16
DF	Ouray, City of	432,016	Yes	800,000	4.500%	09/17/92	06/01/12
DF	Pagosa Springs GID, Town of . (Loan #1)	492,639	Yes	640,000	4.500%	06/03/97	11/01/16
DF	Pagosa Springs GID, Town of . (Loan #2)	196,023	Yes	200,000	4.000%	07/15/02	11/01/22
DF	Pikes Peak America's Mountain	1,000,000	**	1,000,000	4.000%	07/23/03	11/01/20
DF	Saint Mary's Glacier W&SD	96,132	Yes	150,000	4.500%	07/15/94	06/01/14
DF	Salida, City of	550,000	**	550,000	4.000%	11/21/03	11/01/13
DF	Springfield, Town of	181,123	Yes	200,000	* 4.000%	11/01/00	11/01/20
DF	Vona, Town of	65,428	Yes	85,000	4.500%	01/29/97	09/01/16
Total Direct Loans		14,355,134		19,252,588			
Total WPCRF Loans		405,220,964		508,290,451			

* Original loan amount differs from amount stated on the loan agreement due to subsequent amendments. Amendment details are located in various Authority files.
** Scheduled loan repayments have not commenced.

Colorado Water Resources and Power Development Authority
 Water Pollution Control Revolving Fund (WPCRF)
 Loan Status Report
 As of December 31, 2003

WPCRF Loans Defeased and/or Paid in Full As of December 31, 2003					
Bond Issue / Loan Type	Borrower	Original/ Amended Loan Amount		Loan Date	Date Defeased and/or Paid in Full
FD	Divide W&SD	\$69,000		07/15/92	Paid in Full 06/02/95
92A	Frisco San Dist.	\$4,500,000		06/15/92	Paid in Full 08/01/03
99A	Mount Werner W&SD	\$3,034,627		07/01/99	Defeased 4/2/01
FD	Parker W&SD	\$500,000		03/16/95	Paid in Full 01/26/00
FD	Roxborough Park Metro Dist.	\$600,000		11/18/94	Paid in Full 12/01/00
FD	Wellington, Town of	\$375,000		06/01/90	Paid in Full 05/07/02
Total Loans Paid in Full or Defeased		\$9,078,627			

SUMMARY			
	Outstanding Balance	Original/Amnd Balance	Number of Loans
Total Loans Outstanding	405,220,964	508,290,451	101
Total Loans Defeased or Paid in Full	0	9,078,627	6
Total for WPCRF Program	405,220,964	517,369,078	107

APPENDIX E

WRBP Loan Status as
of December 31, 2003

Colorado Water Resources and Power Development Authority
Water Revenue Bonds Program (WRBP)
Loan Status Report
As of December 31, 2003

Bond Issue / Loan Type	Borrower	Outstanding Balance	Current	Original / Amended Amount	Loan Rate	Loan Date	Final Payment Date
Leveraged Loans							
03B	Longmont, City of	3,960,000	Yes	3,960,000	1.915%	06/01/03	08/01/09
03A	Louisville, City of	13,800,000	**	13,800,000	3.627%	06/01/03	11/01/24
98A	Rio Blanco Water Conservancy Dist.	2,375,000	Yes	3,140,000	7.083%	05/01/98	11/15/13
Total Leveraged Loans		20,135,000		20,900,000			
TOTAL WRBP Loans		20,135,000		20,900,000			

** Scheduled loan repayments have not commenced.

WRBP Loans Defeased and/or Paid in Full As of December 31, 2003							
Bond Issue / Loan Type	Borrower	Original/ Amended Loan Amount		Loan Date		Date Defeased and/or Paid in Full	
86A	Stagecoach Project	\$6,800,000		1986		Defeased 1992	
Total Loans Paid in Full or Defeased		\$6,800,000					

Summary			
	Outstanding Balance	Original/Amnd Balance	Number of Loans
Total Loans Outstanding	20,135,000	20,900,000	3
Total Loans Defeased and/or Paid in Full		6,800,000	1
Total for WRBP Program	20,135,000	27,700,000	4

APPENDIX F

Interim Loan Status as
of December 31, 2003

Colorado Water Resources and Power Development Authority
Interim Loans
Loan Status Report
As of December 31, 2003

Borrower	Outstanding Balance	Current	Original / Amended Amount	Loan Rate	Loan Date
Berthoud, Town of	815,962	***	815,962	4.750%	12/23/03
Fountain, City of	2,630,420	***	2,630,420	4.000%	11/01/02
TOTALS	3,446,382		3,446,382		

*** Interim loan principal is recorded as draws are made, not total loan amount authorized

Summary			
	Outstanding Balance	Original/Amnd Balance	Number of Loans
Total Interim Loans Outstanding	3,446,382	3,446,382	2

APPENDIX G

Audited Financial
Statements as of
December 31, 2003



**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

Basic Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Reports Thereon)



Printed on recycled paper



**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

December 31, 2003 and 2002

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KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

The Board of Directors
Colorado Water Resources and Power Development Authority:

We have audited the accompanying financial statements of each major fund of the Colorado Water Resources and Power Development Authority (the Authority), a component unit of the State of Colorado, as of and for the years ended December 31, 2003 and 2002, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic 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 basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Colorado Water Resources and Power Development Authority as of December 31, 2003 and 2002, and the respective changes in financial position and the cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2004 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



The Management's Discussion and Analysis on pages 3 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Denver, Colorado
March 26, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY

Management's Discussion and Analysis
Years Ended December 31, 2003 and 2002

As management of the Colorado Water Resources and Power Development Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2003 and 2002.

Financial Highlights

- * Total net assets of the Authority's three enterprise funds increased \$26.6 million (7.9%) bringing the total to \$363.1 million at December 31, 2003. Capitalization grant revenue received from the United States Environmental Protection Agency (EPA) totaling \$19.1 million was the largest source of funds contributing to this increase.
- * Operating income totaled \$7.5 million during 2003, a decrease of \$3.6 million (32.4%) from 2002. Operating revenue decreased to \$45.3 million, while expenses rose to \$37.8 million for the fiscal year. A \$28 million decrease in Restricted Assets, coupled with a continued decline in investment interest rates, resulted in an investment income decrease of \$3.2 million (16.4%).
- * Bonds payable, net of unamortized refunding costs, at December 31, 2003, totaled \$656.6 million. During 2003, revenue bonds totaling \$74.7 million were issued, resulting in an increase of \$45.2 million (7.4%) in bonds payable, net of unamortized refunding costs. Revenue bonds were issued in following enterprise funds, during 2003:
 - Small Water Resources Projects (SWRP) program (\$9.6 million), plus Water Revenue Bonds Program (WRBP) (\$17.8 million), totaling \$27.4 million in the Water Operations Enterprise Fund,
 - Water Pollution Control Revolving Fund (WPCRF), within the Water Pollution Control Enterprise Fund, - \$14.8 million,
 - Drinking Water Revolving Fund (DWRF), within the Drinking Water Enterprise Fund, - \$32.5 million.
- * Total loans receivable were \$720.1 million at December 31, 2003. During 2003, loans totaling \$88.1 million were executed, resulting in a net increase in loans receivable of \$49.2 million (7.3%). New loans were executed in the following enterprise funds:
 - Water Operations \$ 31.1 million
 - WPCRF 17.7 million
 - DWRF 39.3 million

Overview of the Basic Financial Statements

Management's discussion and analysis is intended to serve as an introduction of the Authority's basic financial statements. Prior years' activity is provided in a comparative presentation in this discussion. The basic financial statements consist of the fund financial statements and the notes to the basic financial statements.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are enterprise funds. These enterprise funds include three separately maintained funds: 1) The Water Operations Fund, 2) The Water Pollution Control Fund, and 3) The Drinking Water Fund. The basic financial statements for each fund are included in this report. Each fund is considered a major fund.

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Notes to the Basic Financial Statements

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

Financial Analysis of Enterprise Funds

Summary of Net Assets

Overview

The Authority's basic financial statements are comprised of three enterprise funds. To better assist the user of these statements, a separate schedule and analysis for each of the funds is presented below. These schedules summarize the financial position of each enterprise fund as of December 31, 2003 and 2002 in a comparative format. Furthermore, schedules of total enterprise fund data and analyses is provided in comparative year format for 2003 - 2002 and 2002 - 2001.

Unrestricted current and other assets primarily consist of cash and cash equivalents, investment and loan interest receivable, loan principal payments due in the subsequent year, investments, and other assets and receivables. Restricted assets are comprised of current and non-current: cash and cash equivalents, investments, and investment income receivable. Restricted assets include amounts relating to borrowers' project accounts, debt service reserve funds, debt service funds and other accounts legally restricted by the revenue bond resolutions.

Current and other liabilities contain amounts such as bond interest payable, bond principal payments due in the subsequent year, project costs payable (remaining borrower direct loan proceeds available), and various other miscellaneous liabilities. The Project costs payable – leveraged loans line item contains the total (current and non-current) remaining borrower loan proceeds available for loans financed with bond proceeds. Long-term debt is the total of bonds payable more than one year subsequent to the fiscal year end. Net assets are classified into invested in capital assets, restricted, and unrestricted categories.

Each of the enterprise funds contains one or more leveraged loan programs that are funded, all or in part, with bond proceeds. Bonds are issued only to provide capital for pre-approved loans. Each additional loan-bond financing package directly increases four major line items on the respective fund's summary statement of net assets: bonds payable, restricted assets, loans receivable, and project costs payable – leveraged loans.

As project construction costs are incurred, borrowers submit requisitions for reimbursement. Construction of these infrastructure projects often lasts up to three years. When approved requisitions are paid, reductions to Restricted Assets and Project Costs Payable-Leveraged Loans are recorded. Therefore, the net changes to these two accounts from year-to-year are dependent upon the increases resulting from new loans and decreases from project requisitions paid.

An explanation and graphical representation of the comparative balances for these four major line items is shown in total and separately for each enterprise fund.

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Total Enterprise Funds

Schedules 1A and 1B show the summary net assets for the three enterprise funds of the Authority in total and on a comparative year basis. Total assets of these funds grew by \$29.2 million in 2003, as compared to an increase of \$147.6 million in 2002. Financing new projects each year contributed to the increases in assets. In 2003 new loans totaled \$88.1 million, while \$124.0 million in loans were made in 2002. However, project draws paid to borrowers totaling \$125.5 million and \$97.9 million in 2003 and 2002 respectively, limited the net increase in total assets.

Total Enterprise Funds (2003 - 2002)		Schedule 1A		
Summary of Net Assets as of December 31				
	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Pct Chg</u>
Unrestricted current and other assets	\$ 145,373,310	132,181,092	13,192,218	10.0%
Restricted assets	348,926,160	376,905,821	(27,979,661)	(7.4%)
Capital assets, net	56,462	33,180	23,282	70.2%
Long-term loans receivable	679,526,210	635,525,819	44,000,391	6.9%
Total assets	<u>\$ 1,173,882,142</u>	<u>1,144,645,912</u>	<u>29,236,230</u>	<u>2.6%</u>
Current and other liabilities	\$ 65,439,838	66,415,475	(975,637)	(1.5%)
Project costs payable-leveraged loans	122,187,070	160,237,926	(38,050,856)	(23.7%)
Long-term debt outstanding, net	623,168,895	581,514,331	41,654,564	7.2%
Total liabilities	<u>810,795,803</u>	<u>808,167,732</u>	<u>2,628,071</u>	<u>0.3%</u>
Fund net assets:				
Invested in capital assets	56,462	33,180	23,282	70.2%
Restricted	289,208,103	256,479,816	32,728,287	12.8%
Unrestricted	73,821,774	79,965,184	(6,143,410)	(7.7%)
Total fund net assets	<u>363,086,339</u>	<u>336,478,180</u>	<u>26,608,159</u>	<u>7.9%</u>
Total liabilities and fund net assets	<u>\$ 1,173,882,142</u>	<u>1,144,645,912</u>	<u>29,236,230</u>	<u>2.6%</u>

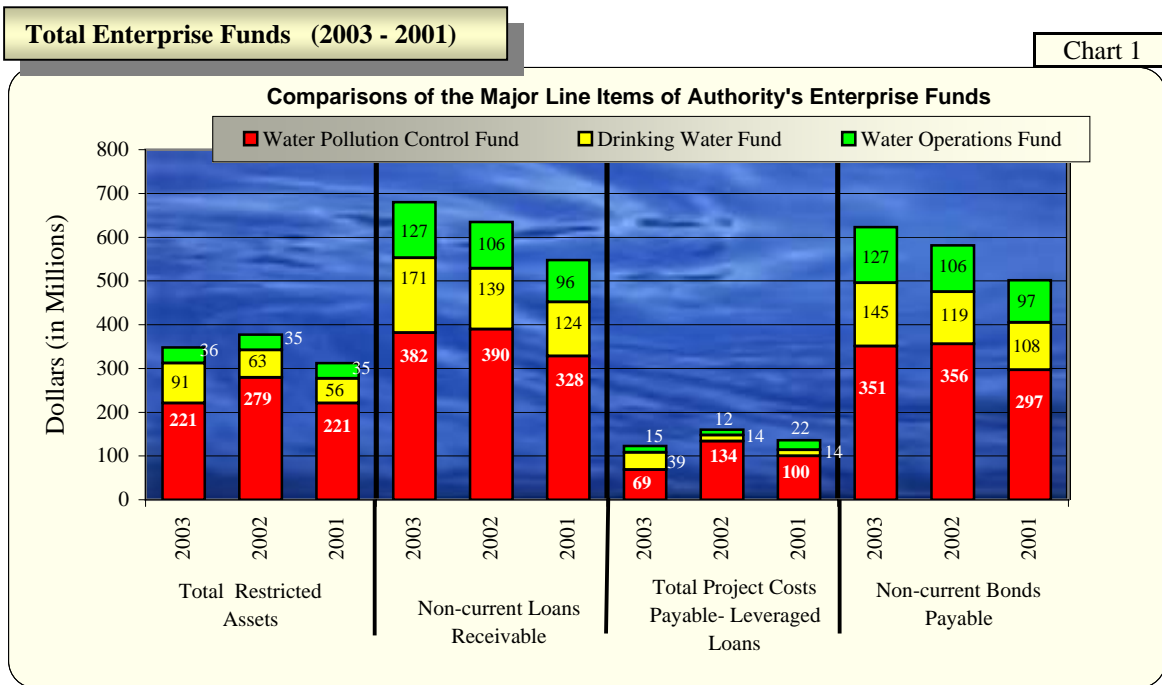
Total Enterprise Funds (2002 - 2001)		Schedule 1B		
Summary of Net Assets as of December 31				
	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>Pct Chg</u>
Current and other assets	\$ 132,181,092	136,521,526	(4,340,434)	(3.2%)
Restricted assets	376,905,821	312,034,106	64,871,715	20.8%
Capital assets, net	33,180	34,849	(1,669)	(4.8%)
Long-term loans receivable	635,525,819	548,499,309	87,026,510	15.9%
Total assets	<u>\$ 1,144,645,912</u>	<u>997,089,790</u>	<u>147,556,122</u>	<u>14.8%</u>
Current and other liabilities	\$ 66,415,475	59,488,162	6,927,313	11.6%
Project costs payable-Leveraged Loans	160,237,926	135,560,848	24,677,078	18.2%
Long-term debt outstanding, net	581,514,331	501,209,995	80,304,336	16.0%
Total liabilities	<u>808,167,732</u>	<u>696,259,005</u>	<u>111,908,727</u>	<u>16.1%</u>
Fund net assets:				
Invested in capital assets	33,180	34,849	(1,669)	(4.8%)
Restricted	256,479,816	222,598,963	33,880,853	15.2%
Unrestricted	79,965,184	78,196,973	1,768,211	2.3%
Total fund net assets	<u>336,478,180</u>	<u>300,830,785</u>	<u>35,647,395</u>	<u>11.8%</u>
Total liabilities and fund net assets	<u>\$ 1,144,645,912</u>	<u>997,089,790</u>	<u>147,556,122</u>	<u>14.8%</u>

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Total liabilities increased by \$2.6 million in 2003, but increased by \$111.9 million in 2002. Bonds totaling \$74.7 million were issued in 2003, while \$109.6 million were issued in 2002. This new debt added to the net increases in total liabilities for those years. In 2003, the project draws of \$125.5 million resulted in a net reduction to Project costs payable-leveraged loans of \$38.1 million that limited the increase in total liabilities. Total fund net assets increased by \$26.6 million in 2003, down from a \$35.6 million increase in 2002. The 2003 increase in fund net assets was limited by a reduction in investment interest of \$3.3 million. Furthermore, in 2002, the one-time \$7.3 million contribution from Animas-La Plata increased fund net assets.

Chart 1 is a stacked bar graphical representation of the four major accounts affected by new projects financed, as discussed in the general narrative section on page 4 of this discussion. The totals of these four accounts are shown for the years 2003, 2002 and 2001. Each bar is subdivided by colors that represent the amounts that each of the three enterprise funds contributes to the total for that year. The chart shows that during 2003 the DWRP had the largest addition to loans, while the WPCRFP was the most active fund in 2002.



The discussion below describes the changes to each of the three-enterprise fund's summary schedule of net assets for the current year and associated charts provide visual information of the effects of new financing activities in 2003.

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Water Operations Fund

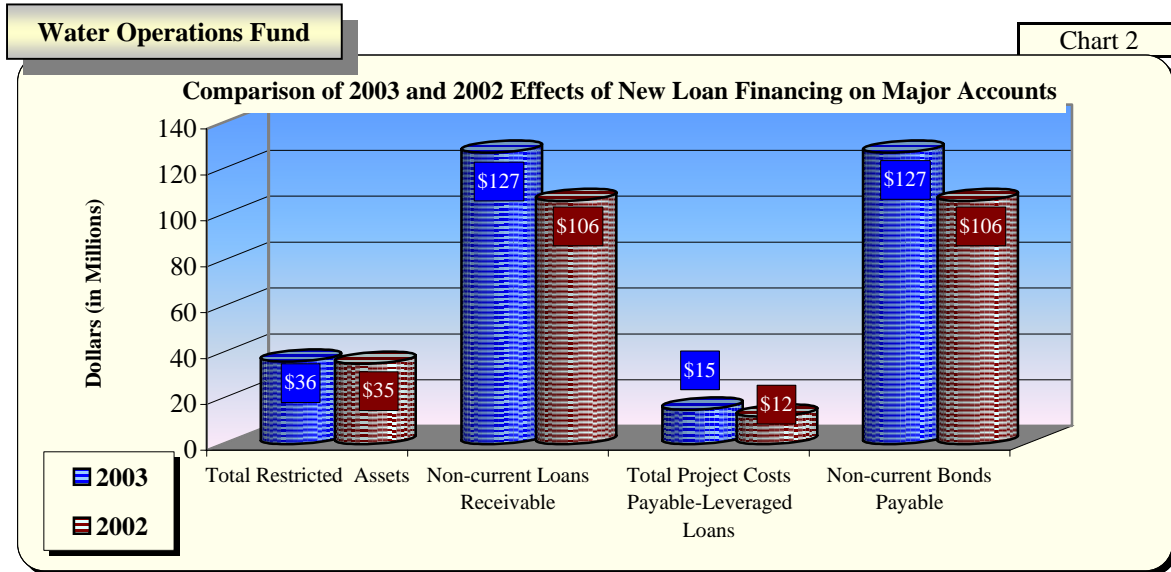
The Water Operations Fund is discussed in detail in note 1 of the basic financial statements. This fund is the combination of the business operations of the Authority (general and administrative), the SWRP and the WRBP. The SWRP and the WRBP are both leveraged loan programs, whereby revenue bonds are issued and the bond proceeds are used to fund related, approved loans. To reduce the cost of financing for these borrowers, the Authority began absorbing the total cost of issuing these bonds in 2003. Loans made from these programs are not subsidized by federal capitalization grants.

The leveraged loan programs are generally more cost effective when a pool of approved borrowers is formed prior to issuing the bonds. However, borrowers frequently have projects that require funding before bonds are ready to be issued. To assist these communities the Authority may approve interim (or bridge) loans, until permanent financing is available. During 2003, interim loan requisitions totaling \$3.7 million were paid, interim loans repaid by permanent financing totaled \$3.6 million, leaving a balance of \$3.4 million at year-end. The comparative balances of the four-major accounts affected by leveraged loans are shown in Chart 2. The increases in loans receivable and bonds payable are the result of issuing \$9.6 million of SWRP bonds and \$17.8 million of WRBP bonds, investing the bond proceeds and executing corresponding loans to the communities. Construction draws totaling \$20.4 million limited the increase in Restricted assets to \$1.6 million, and Project costs payable-leveraged loans to \$3.3 million.

Water Operations Fund		Schedule 2			
Summary of Net Assets as of December 31					
	2003	2002	Change	Pct Chg	
Unrestricted current and other assets	\$ 71,476,057	68,431,619	3,044,438	4.4%	
Restricted assets	36,452,268	34,886,556	1,565,712	4.5%	
Capital assets, net	25,924	2,872	23,052	802.6%	
Long-term loans receivable	127,000,000	106,055,833	20,944,167	19.7%	
Total assets	<u>\$ 234,954,249</u>	<u>209,376,880</u>	<u>25,577,369</u>	<u>12.2%</u>	
Current and other liabilities	\$ 9,957,242	10,582,141	(624,899)	(5.9%)	
Project costs payable-leveraged loans	15,005,994	11,704,856	3,301,138	28.2%	
Long-term debt outstanding, net	127,388,333	106,363,333	21,025,000	19.8%	
Total liabilities	<u>152,351,569</u>	<u>128,650,330</u>	<u>23,701,239</u>	<u>18.4%</u>	
Fund net assets:					
Invested in capital assets	25,924	2,872	23,052	802.6%	
Restricted	21,383,146	16,565,244	4,817,902	29.1%	
Unrestricted	61,193,610	64,158,434	(2,964,824)	(4.6%)	
Total fund net assets	<u>82,602,680</u>	<u>80,726,550</u>	<u>1,876,130</u>	<u>2.3%</u>	
Total liabilities and fund net assets	<u>\$ 234,954,249</u>	<u>209,376,880</u>	<u>25,577,369</u>	<u>12.2%</u>	

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Also included in Restricted Assets of the Water Operations fund is the \$5.7 million unexpended balance of the Animas-La Plata Escrow Account. During 2003, \$1.2 million was paid to the Bureau of Reclamation (Bureau) bringing the total payments to \$2.2 million. Payments made to the Bureau represent progress payments for the purchase of average annual depletion of 2,600 acre-feet of water from the project. These progress payments are recorded as Water depletion rights and are included in Current and other assets.

Water Pollution Control Fund

The financial model for the WPCRF program allows for a reduction in debt service reserve fund balances annually in September, after bond principal and interest payments have been made. This process is referred to as “deallocation” and consists of the liquidation of debt service reserve fund investments and depositing the cash proceeds in the reloan account (cash equivalent investment). In 2003, \$8.9 million was deposited into the reloan account contributing to the \$11 million increase (30.2%) in the fund’s Current and other assets. Reloan funds were not used to fund leveraged loans in 2003.

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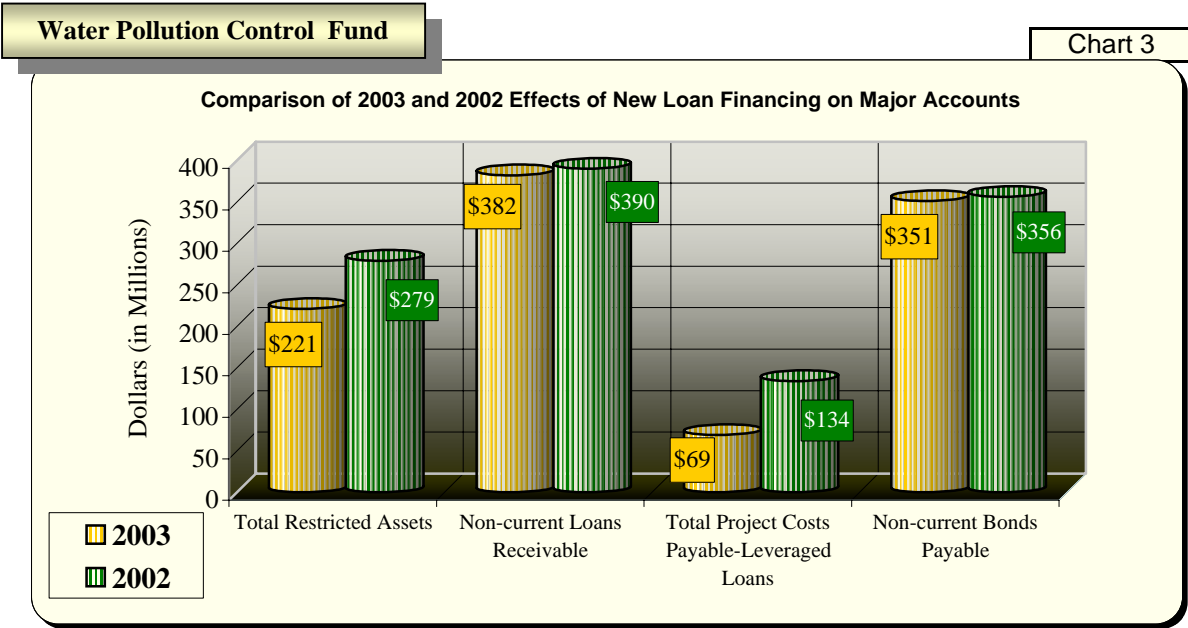
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Water Pollution Control Fund	Schedule 3			
Summary of Net Assets as of December 31				
	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Pct Chg</u>
Unrestricted current and other assets	\$ 47,542,367	36,510,252	11,032,115	30.2%
Restricted assets	221,241,614	278,554,004	(57,312,390)	(20.6%)
Capital assets, net	15,269	15,154	115	0.8%
Long-term loans receivable	381,980,089	389,998,669	(8,018,580)	(2.1%)
Total assets	<u>\$ 650,779,339</u>	<u>705,078,079</u>	<u>(54,298,740)</u>	<u>(7.7%)</u>
Current and other liabilities	\$ 41,416,630	43,102,694	(1,686,064)	(3.9%)
Project costs payable-leveraged loans	68,501,609	134,234,465	(65,732,856)	(49.0%)
Long-term debt outstanding, net	350,590,562	356,190,998	(5,600,436)	(1.6%)
Total liabilities	<u>460,508,801</u>	<u>533,528,157</u>	<u>(73,019,356)</u>	<u>(13.7%)</u>
Fund net assets:				
Invested in capital assets	15,269	15,154	115	0.8%
Restricted	190,255,269	171,534,768	18,720,501	10.9%
Total fund net assets	<u>190,270,538</u>	<u>171,549,922</u>	<u>18,720,616</u>	<u>10.9%</u>
Total liabilities and fund net assets	<u>\$ 650,779,339</u>	<u>705,078,079</u>	<u>(54,298,740)</u>	<u>(7.7%)</u>

Chart 3 displays the comparative balances of the four-major accounts affected by loan activities. During 2003, the WPCRF issued revenue bonds totaling \$14.8 million. The bond proceeds plus \$1.4 million of state matching dollars, funded new leveraged loans totaling \$16.2 million. These loans and bonds added to the balances of each of the four accounts; however, net decreases in Restricted assets (\$57.3 million) and Project costs payable-leveraged loans (\$65.7 million) occurred due to construction draws totaling \$83.6 million. Net decreases in Long-term loans receivable (\$8 million), and Long-term debt (\$5.6 million) occurred because loan principal repayments (\$23.3 million) and bond principal payment (\$19.3 million) exceeded the effects of the 2003 new financing activity.

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The WPCRF had operating income of \$3.9 million, and federal grant revenue of \$14.9 million that resulted in the increase in restricted net assets of \$18.7 million.

Drinking Water Fund

Current and other assets decreased \$0.9 million in 2003. The net decrease was the result of transferring (decrease) unrestricted cash equivalents totaling \$3.6 million to satisfy state match requirement for the DWRP 2003 Series A and B bond issues and the deallocation (increase) of debt service reserve funds in September 2003 totaling \$2.5 million.

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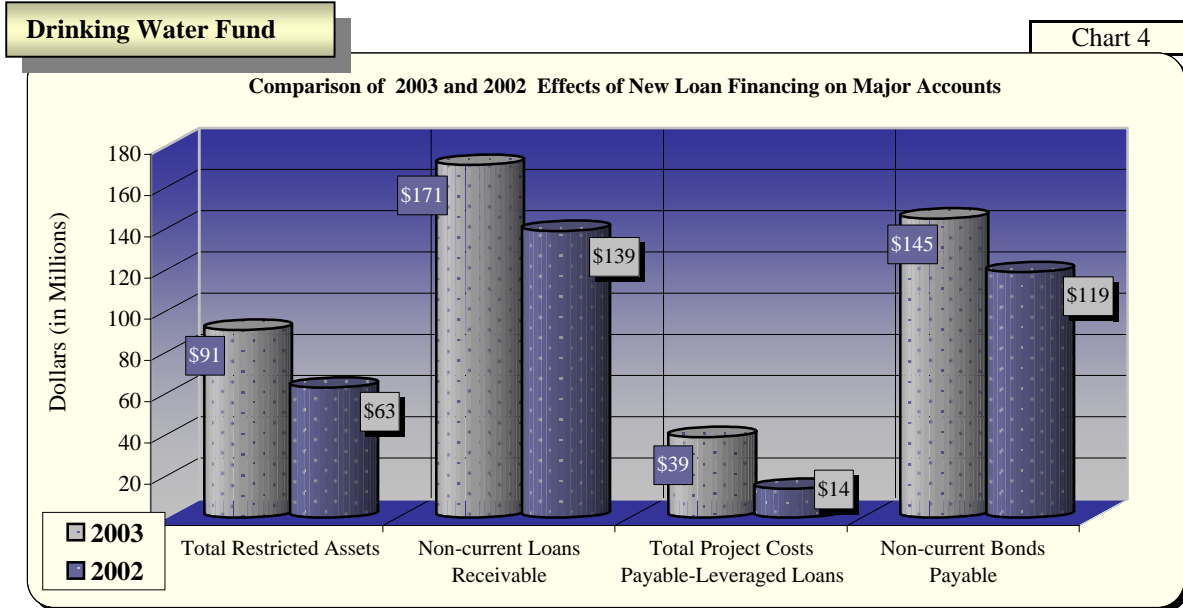
Drinking Water Fund	Schedule 4			
Summary of Net Assets as of December 31				
	2003	2002	Change	Pct Chg
Unrestricted current and other assets	\$ 26,354,886	27,239,221	(884,335)	(3.2%)
Restricted assets	91,232,278	63,465,261	27,767,017	43.8%
Capital assets, net	15,269	15,154	115	0.8%
Long-term loans receivable	170,546,121	139,471,317	31,074,804	22.3%
Total assets	<u>\$ 288,148,554</u>	<u>230,190,953</u>	<u>57,957,601</u>	<u>25.2%</u>
Current and other liabilities	\$ 14,065,966	12,730,640	1,335,326	10.5%
Project costs payable-leveraged loans	38,679,467	14,298,605	24,380,862	170.5%
Long-term debt outstanding, net	145,190,000	118,960,000	26,230,000	22.0%
Total liabilities	<u>197,935,433</u>	<u>145,989,245</u>	<u>51,946,188</u>	<u>35.6%</u>
Fund net assets:				
Invested in capital assets	15,269	15,154	115	0.8%
Restricted	77,569,688	68,379,804	9,189,884	13.4%
Unrestricted	12,628,164	15,806,750	(3,178,586)	(20.1%)
Total fund net assets	<u>90,213,121</u>	<u>84,201,708</u>	<u>6,011,413</u>	<u>7.1%</u>
Total liabilities and fund net assets	<u>\$ 288,148,554</u>	<u>230,190,953</u>	<u>57,957,601</u>	<u>25.2%</u>

During 2003, the DWRF issued Series A and Series B revenue bonds totaling \$32.5 million. The bond proceeds plus \$3.6 million state matching dollars, funded new leveraged loans totaling \$36.1 million. Chart 4 displays the comparative balances of the four-major accounts and the following net increases: Restricted assets (\$27.8 million), Long-term loans receivable (\$31.1 million), Project costs payable-leveraged loans (\$24.4 million), and Long-term debt (\$26.2 million). Construction draws totaling \$14.2 million limited the net increase in Restricted assets and Project costs payable-leveraged loans.

The DWRF had operating income of \$1.8 million, and federal grant revenue of \$4.2 million that resulted in the increase in net assets of \$6.0 million (7.1%).

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Summary of Changes in Fund Net Assets

Overview

As described in the notes to the basic financial statements, the Authority issues bonds to raise capital for funding program loans. The bonds are repaid from receipts of loan repayments (principal and interest) and in the WPCRF and DWRF, from investment income earned on restricted assets held in the borrowers' project accounts and in bond debt service reserve funds. This investment income used for paying bond debt service in the revolving funds represents the loan interest subsidy provided to the borrowers.

Below are schedules showing the summary of changes in net assets by individual enterprise funds and in total. Like the complete statements located in the basic financial statements, these summary schedules show operating revenues, operating expenses, operating income, other sources of revenue, and the changes in net assets in a comparative year format. These schedules quantify the operating results of the Authority as a financing entity. For 2003, investment income and loan interest income made up more than 79% of operating revenues, bond interest expense was more than 85% of operating expense, and 72% of total changes in net assets came from federal capitalization grant revenue.

The WPCRF and DWRF programs are allowed to collect a loan administrative fee surcharge to supplement administrative grant funds used to pay administrative expenses. The annual administrative fee surcharge rate is 0.8% and is applied to the original loan receivable balance, and is a component of loan repayments. Generally, these fees remain constant over the term of the loan.

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Pursuant to the implementation of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, for the WPCRF and the DWRF, federal capitalization grant receipts have been recorded as non-operating revenue. Grant revenue from the DWRF set asides and grant reimbursements for program administrative costs for both revolving funds are recorded as operating revenue. For loans funded with grant dollars, each project requisition generates a draw from the respective program's grant(s). Capitalization grant revenue is shown below operating income on the Summary of Changes in Fund Net Assets. Two major factors contribute to the amount of grant revenue recognized; 1) the number and size of loans made in the revolving funds for the year; and 2) the demand for project cost reimbursements, including projects funded in prior years.

Total Enterprise Funds

Schedules 5A and 5B combine the results of operations of the three enterprise funds, shown in a comparative year format. Although restrictions exist on transfers of monies among the enterprise funds, these schedules provide information about the overall financial operating results. Operating income was \$7.5 million, \$11.1 million and \$8.2 million for 2003, 2002 and 2001, respectively. Lower investment principal amounts, coupled with declining investment interest rate during 2003, led to a \$3.2 million decrease in investment income.

In 2002 investment balances increased significantly (net of project draws) due to the investment of bond proceeds for projects and the significant deposit of reloan funds in the bond debt service reserve funds in the WPCRF. These 2002 investments increased the restricted asset balance to \$376.9 million. This larger investment balance and higher investment interest rates resulted in the increase in investment income, and that contributed to the rise in operating income in 2002. Loan interest income rose in each of the years and totaled \$19.3 million, \$17.7 million and \$16.3 million for 2003, 2002 and 2001, respectively. The increases in loan interest income were the direct result of the additional loans made each year. For these years, loans receivable totaled \$720.1 million, \$670.9 million and \$576.5 million.

Total outstanding bonds payable were \$658.2 million, \$613.4 million and \$530.0 million at December 31, 2003, 2002 and 2001, respectively. This increase in outstanding debt resulted in the corresponding rise in bond interest expense of \$32.2 million, \$29.9 million and \$27.2 million for those years.

EPA capitalization grants totaled \$19.1 million, \$17.2 million and \$21.9 million for 2003, 2002 and 2001, respectively. As explained earlier in this section, grant funds are drawn as requisitions are paid to borrowers for projects that are financed with capitalization grant monies. These grant amounts are consistent with the project draws made in WPCRF and the DWRF for those years. The Water Operations Fund loans are not financed with federal grants.

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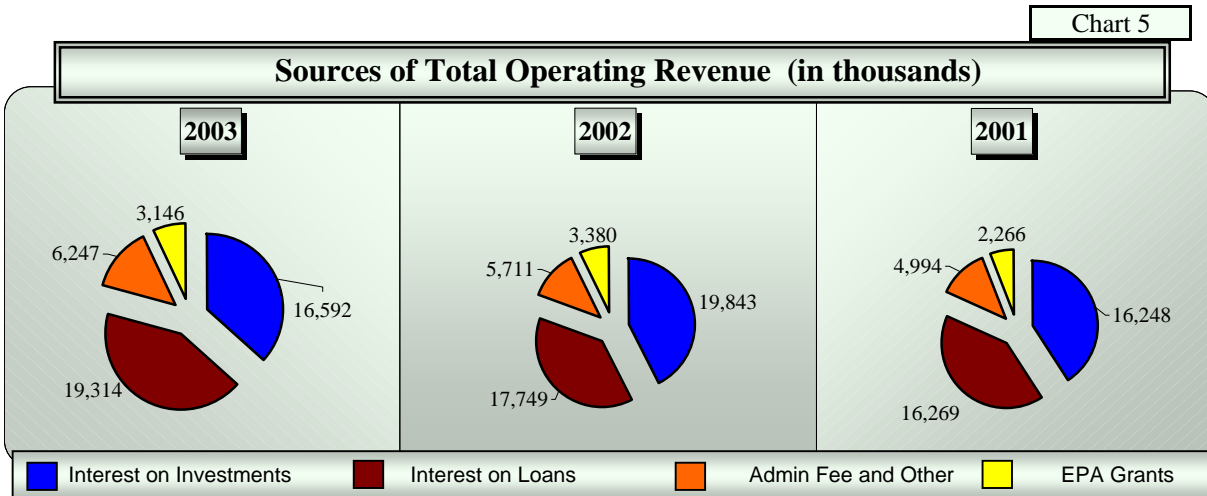
Total Enterprise Funds (2003 - 2002)		Schedule 5A		
Summary of Changes in Fund Net Assets as of December 31				
	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Pct Chg</u>
Operating revenues:				
Interest on investments	\$ 16,592,162	19,843,062	(3,250,900)	(16.4%)
Interest on loans	19,313,722	17,748,957	1,564,765	8.8%
Administrative fee and other income	6,246,854	5,711,298	535,556	9.4%
EPA grants	3,145,799	3,379,566	(233,767)	(6.9%)
Total operating revenues	<u>45,298,537</u>	<u>46,682,883</u>	<u>(1,384,346)</u>	<u>(3.0%)</u>
Operating expenses:				
Interest on bonds	32,200,865	29,889,321	2,311,544	7.7%
Grant administration	2,251,592	2,114,324	137,268	6.5%
General, administrative, and other expenses	901,404	851,077	50,327	5.9%
EPA set asides	2,429,366	2,716,207	(286,841)	(10.6%)
Total operating expenses	<u>37,783,227</u>	<u>35,570,929</u>	<u>2,212,298</u>	<u>6.2%</u>
Operating income	7,515,310	11,111,954	(3,596,644)	(32.4%)
EPA capitalization grants	19,092,849	17,223,930	1,868,919	10.9%
Contributions from Animas-La Plata	-	7,311,511	(7,311,511)	(100.0%)
Change in net assets	<u>26,608,159</u>	<u>35,647,395</u>	<u>(9,039,236)</u>	<u>(25.4%)</u>
Net assets – beginning of year	336,478,180	300,830,785	35,647,395	11.8%
Net assets – end of year	<u>\$ 363,086,339</u>	<u>336,478,180</u>	<u>26,608,159</u>	<u>7.9%</u>

Total Enterprise Funds (2002 - 2001)		Schedule 5B		
Summary of Changes in Fund Net Assets as of December 31				
	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>Pct Chg</u>
Operating revenues:				
Interest on investments	\$ 19,843,062	16,248,309	3,594,753	22.1%
Interest on loans	17,748,957	16,269,369	1,479,588	9.1%
Administrative fee and other income	5,711,298	4,993,953	717,345	14.4%
EPA grants	3,379,566	2,266,178	1,113,388	49.1%
Total operating revenues	<u>46,682,883</u>	<u>39,777,809</u>	<u>6,905,074</u>	<u>17.4%</u>
Operating expenses:				
Interest on bonds	29,889,321	27,164,122	2,725,199	10.0%
Grant administration	2,114,324	2,083,171	31,153	1.5%
General, administrative, and other expenses	851,077	701,214	149,863	21.4%
EPA set asides	2,716,207	1,672,309	1,043,898	62.4%
Total operating expenses	<u>35,570,929</u>	<u>31,620,816</u>	<u>3,950,113</u>	<u>12.5%</u>
Operating income	11,111,954	8,156,993	2,954,961	36.2%
EPA capitalization grants	17,223,930	21,859,798	(4,635,868)	(21.2%)
Contributions from Animas-La Plata	7,311,511	37,881,052	(30,569,541)	(80.7%)
Change in net assets	<u>35,647,395</u>	<u>67,897,843</u>	<u>(32,250,448)</u>	<u>(47.5%)</u>
Net assets – beginning of year	300,830,785	232,932,942	67,897,843	29.1%
Net assets – end of year	<u>\$ 336,478,180</u>	<u>300,830,785</u>	<u>35,647,395</u>	<u>11.8%</u>

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Chart 5 shows the major components of total operating revenue. These charts show the effects of investment and loan interest earnings discussed above, including the rise and fall in investment income in 2002 and 2003. Leveraged loans in the WPCRf and the DWRf are subsidized by investment income earned in the debt service reserve funds (reserve fund financing model). The reserve fund earnings make up a significant portion of total investment income. The investment income plus loan interest income provides the funds to pay the bond interest expense in each corresponding year. As expected, administrative fee income, collected on loans, increased in direct proportion to the balances in the WPCRf and DWRf loans receivable. The EPA grant revenue shown in operating income is comprised of grant funds drawn for program administration, and for funding the DWRf set aside activities as discussed in the notes to basic financial statements. EPA capitalization grants used for the loan programs are not part of operating income.



The discussion below describes the changes to each of the three-enterprise fund's summary schedule of changes in net assets and associated charts to provide visual information of the components of income and expense that impact the change in fund net assets for 2003 and 2002.

Water Operations Fund

The Summary of Net Assets (Schedule 2) for the Water Operations Fund shows that non-current loans receivable and bonds payable each increased over \$20 million (approximately 20%). Loan interest income and bond interest expense increased 9.8% and 7.3%, respectively (see Schedule 6). These increases are proportional to the increases to the loans and bonds, since the loans and bonds were issued about mid-year in both 2003 and 2002. Interest on investments decreased nearly \$1 million (28.9%) in 2003. This decrease was the result of declining interest rates throughout the year. The fund had over \$53 million invested in the pool managed by the Colorado state treasurer and the average interest rate declined from 4.8% at the beginning of the year to 3% by the end of 2003. COLOTRUST investment pool rates declined from 1.3% to 0.9%.

As shown in Chart 6, investment and loan interest income are the principal sources of operating revenue in the Water Operations Fund. As discussed above, investment income decreased 28.9%, while loan interest income increased by 9.8%. General, administrative and other expenses remained fairly constant, while bond interest expense rose 7.3% due to the additional bonds issued in 2003. The 30.1% decrease in operating income is primarily the result of lower investment income in 2003.

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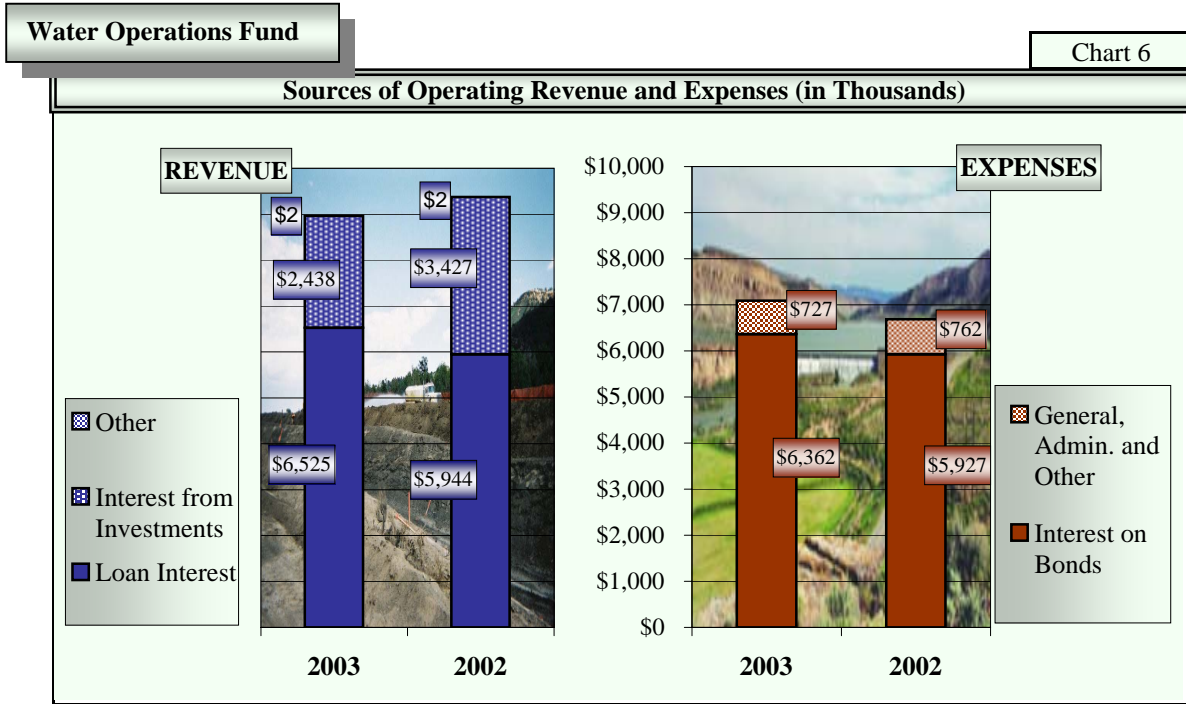
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The \$7.3 million balance of the Animas-La Plata escrow account that was contributed to the Water Operations Fund in 2002 is contractually committed for payment to the Bureau of Reclamation. In exchange for the payments the Authority will receive rights to average annual depletion of 2,600 acre-feet of water from the reservoir project. During 2003, only investment income earned on the escrow account affected the changes in fund net assets. The \$1.2 million payment to the Bureau was recorded as an addition to the Water depletion rights on the Statement of Net Assets in the basic financial statements.

Water Operations Fund	Schedule 6			
Summary of Changes in Fund Net Assets as of December 31				
	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Pct Chg</u>
Operating revenues:				
Interest on investments	\$ 2,438,377	3,427,154	(988,777)	(28.9%)
Interest on loans	6,525,096	5,944,449	580,647	9.8%
Other income	1,631	2,464	(833)	(33.8%)
Total operating revenues	<u>8,965,104</u>	<u>9,374,067</u>	<u>(408,963)</u>	<u>(4.4%)</u>
Operating expenses:				
Interest on bonds	6,362,280	5,927,012	435,268	7.3%
General, administrative, and other expenses	726,694	761,914	(35,220)	(4.6%)
Total operating expenses	<u>7,088,974</u>	<u>6,688,926</u>	<u>400,048</u>	<u>6.0%</u>
Operating income	1,876,130	2,685,141	(809,011)	(30.1%)
Contributions from agency fund	-	7,311,511	(7,311,511)	(100.0%)
Change in net assets	<u>1,876,130</u>	<u>9,996,652</u>	<u>(8,120,522)</u>	<u>(81.2%)</u>
Net assets – beginning of year	80,726,550	70,729,898	9,996,652	14.1%
Net assets – end of year	<u>\$ 82,602,680</u>	<u>80,726,550</u>	<u>1,876,130</u>	<u>2.3%</u>

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Water Pollution Control Fund

In May 2003, bonds were issued in the WPCRF program totaling \$14.8 million, funding three loans. The Summary of Net Assets (Schedule 3) for the WPCRF shows that long-term loans receivable and bonds payable decreased by about 2%. Normally a direct correlation exists between changes in loan interest income and bond interest expense and the changes in asset and liability balances. However, in 2002, \$78.7 million in bonds were issued (\$55.3 million in May and \$23.4 million in November) and associated loans were funded. These loan and bond balances were outstanding for a few months in 2002 but were outstanding throughout 2003. Loan interest income increased 4.0% and bond interest expense increased 8.1% despite lower principal balances at the end of 2003.

Interest on investments decreased \$1.9 million (14.7%) in 2003. Although lower investment rates played a part in this decrease, the major cause of the decrease was Restricted asset balances decreased \$57.3 million (20.6%). This decrease in Restricted assets was caused by project requisitions paid to borrowers totaling \$83.6 million. Reductions to the principal balances in those project accounts directly reduced the amounts of interest earned.

Chart 7 shows the components of operating income and expenses in a comparative format. As discussed above, loan interest income and bond interest expense rose moderately, while investment income decreased \$1.9 million (14.7%). Loan administrative fee income, which is computed based upon the original loan balances, rose \$0.2 million.

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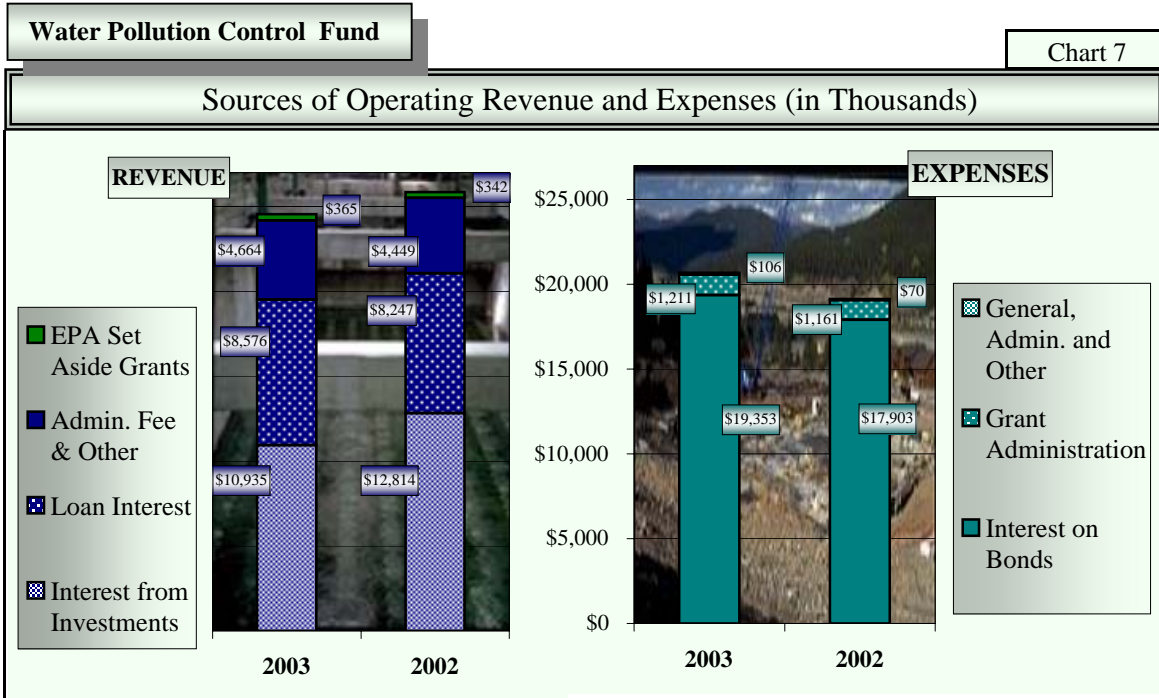
Management's Discussion and Analysis
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Water Pollution Control Fund	Schedule 7			
Summary of Changes in Fund Net Assets as of December 31				
	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Pct Chg</u>
Operating revenues:				
Interest on investments	\$ 10,935,359	12,813,566	(1,878,207)	(14.7%)
Interest on loans	8,575,742	8,247,247	328,495	4.0%
Administrative fee and other income	4,664,308	4,448,989	215,319	4.8%
EPA grants-administrative	365,188	341,565	23,623	6.9%
Total operating revenues	<u>24,540,597</u>	<u>25,851,367</u>	<u>(1,310,770)</u>	<u>(5.1%)</u>
Operating expenses:				
Interest on bonds	19,353,391	17,902,940	1,450,451	8.1%
Grant administration	1,211,440	1,161,206	50,234	4.3%
General, administrative, and other expenses	106,153	69,657	36,496	52.4%
Total operating expenses	<u>20,670,984</u>	<u>19,133,803</u>	<u>1,537,181</u>	<u>8.0%</u>
Operating income	3,869,613	6,717,564	(2,847,951)	(42.4%)
EPA capitalization grants	14,851,003	10,402,409	4,448,594	42.8%
Change in net assets	<u>18,720,616</u>	<u>17,119,973</u>	<u>1,600,643</u>	<u>9.3%</u>
Net assets – beginning of year	171,549,922	154,429,949	17,119,973	11.1%
Net assets – end of year	<u>\$ 190,270,538</u>	<u>171,549,922</u>	<u>18,720,616</u>	<u>10.9%</u>

The cost to administer the WPCRF for 2003 was \$1.2 million. Included in this amount are reimbursed costs paid to the Water Quality Control Division of the Colorado Department of Public Health and Environment (\$0.6 million), and the Division of Local Government of the Colorado Department of Local Affairs (\$0.1 million). These agencies of the State provide environmental, technical, outreach and financial analysis services in operating the WPCRF Program.

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As discussed at the beginning of this section, a proportionate amount of federal capitalization grant revenue is recognized for each borrower project requisition. Capitalization grants revenue totaled \$14.9 million, and is consistent with project draws totaling over \$83 million.

Drinking Water Fund

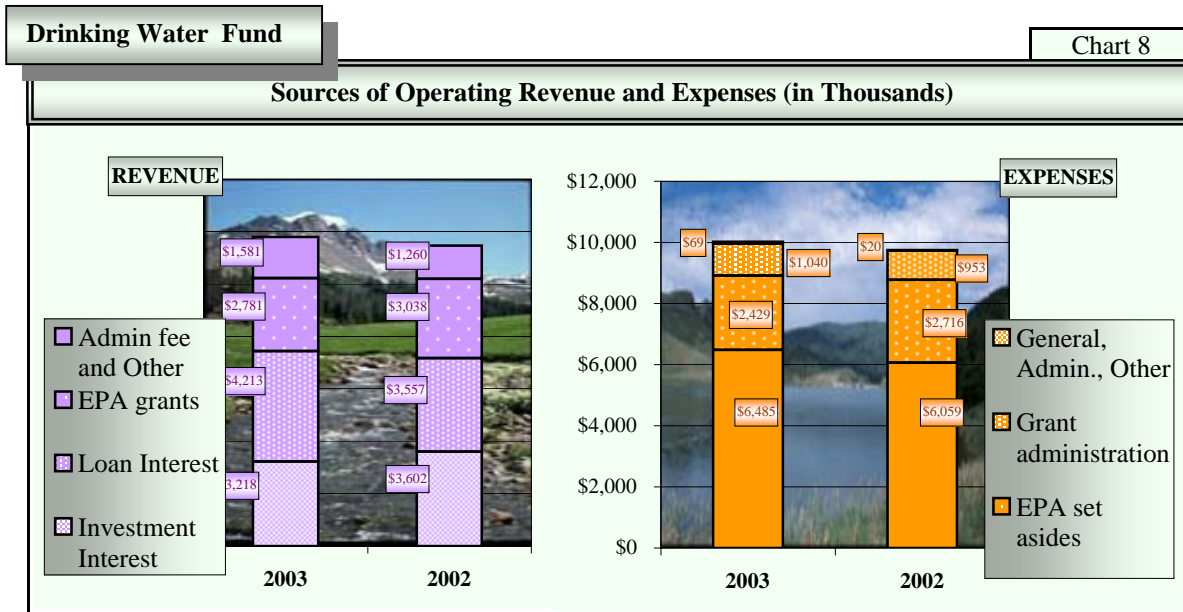
In 2003, bonds were issued in the DWRF totaling \$32.5 million. In June, \$20.8 million of bonds were issued to fund three loans, and in November, \$11.7 million of bonds were issued to fund one loan. The Summary of Net Assets (Schedule 4) for the DWRF shows that long-term loans receivable and bonds payable increased by 22.3% and 22.0% respectively. Included in the increase in loans receivable were four direct loans totaling \$3.2 million funded from reloan funds. Taking into consideration the timing and types of these financing activities, loan interest income and bond interest expense increased 18.4% and 7.0%.

As shown in Schedule 4, Restricted assets increased \$27.8 million (43.8%). This increase in investment principal would normally have produced an increase in Interest on investments; however, that income decreased \$0.4 million (10.7%). Several interrelated factors had an impact on this decrease: 1) In 2002 investment interest rates on Restricted assets generally exceeded the arbitrage rate on the associated bonds, 2) In 2003 market conditions dictated a much lower interest rate (approximately 1.8%) on the short-term investment of bond proceeds in the borrowers' project accounts, and 3) as discussed in the Water Operations Fund section on page 6 of this discussion, the interest rate on investments held in the pool managed by the Colorado state treasurer decreased 1.8% during 2003, which reduced the income earned on the \$8.5 million held in that account.

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Drinking Water Fund	Schedule 8			
Summary of Changes in Fund Net Assets as of December 31				
	2003	2002	Change	Pct Chg
Operating revenues:				
Interest on investments	\$ 3,218,426	3,602,342	(383,916)	(10.7%)
Interest on loans	4,212,884	3,557,261	655,623	18.4%
Administrative fee and other income	1,580,915	1,259,845	321,070	25.5%
EPA grants	2,780,611	3,038,001	(257,390)	(8.5%)
Total operating revenues	11,792,836	11,457,449	335,387	2.9%
Operating expenses:				
Interest on bonds	6,485,194	6,059,369	425,825	7.0%
Grant administration	1,040,152	953,118	87,034	9.1%
General, administrative, and other expenses	68,557	19,506	49,051	251.5%
EPA set asides	2,429,366	2,716,207	(286,841)	(10.6%)
Total operating expenses	10,023,269	9,748,200	275,069	2.8%
Operating income	1,769,567	1,709,249	60,318	3.5%
EPA capitalization grants	4,241,846	6,821,521	(2,579,675)	(37.8%)
Change in net assets	6,011,413	8,530,770	(2,519,357)	(29.5%)
Net assets – beginning of year	84,201,708	75,670,938	8,530,770	11.3%
Net assets – end of year	\$ 90,213,121	84,201,708	6,011,413	7.1%



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Please refer to the notes to the basic financial statements for an explanation of the set aside programs funded by the DWRF. These grant dollars reimburse the costs incurred to implement these special programs designed to enhance safe drinking water supplies. As program costs are incurred, EPA grant funds are drawn for those specific purposes. The amount of set aside program income and expense is dependent upon the actions of the Water Quality Control Division. In 2003, these expenditures were about 10% lower than in 2002.

The cost to administer the DWRF for 2003 was about \$1 million. Included in this amount are reimbursed costs paid to the Water Quality Control Division of the Colorado Department of Public Health and Environment (\$0.6 million), and the Division of Local Government of the Colorado Department of Local Affairs (\$0.1 million). These State agencies provide environmental, technical, outreach and financial analysis services in operating the DWRF.

EPA capitalization grants revenues decreased \$2.6 million (37.8%) in 2003. As discussed at the beginning of this section, a proportionate amount of federal capitalization grant revenue is recognized for each borrower project requisition. However, because certain loans are funded partially or entirely by reloan dollars (recycled grant funds), not all project requisitions result in the recognition of grant revenue. Furthermore, project requisitions paid decreased from \$18.9 million in 2002 to \$14.2 million in 2003. That decrease in the amount of requisitions paid resulted in the decrease in EPA capitalization grant draws.

Economic Factors

The demand for financing water and wastewater infrastructure projects is not significantly affected by general economic conditions. This demand has remained strong even though Colorado's economy remains relatively weak. Some of the factors that bolster this demand are:

- * Loans are repaid primarily from service revenues rather than tax revenues, and these revenues are less susceptible to fluctuations than are tax revenues.
- * More stringent, federal water quality standards often mandate the replacement of or upgrades to infrastructure.
- * Colorado's population continues to increase, requiring plant expansions.
- * The continued drought affecting Colorado for the past few years has created interest in building additional reservoir storage and transmission projects.
- * Low interest rates on municipal bonds issued by the Authority result in lower loan interest rates, especially those loans subsidized by the WPCRF and DWRF, thereby making project financing more affordable for local communities.

The Authority includes all potential loans in its enterprise fund budgets as shown in Schedule 9. A high demand for financing from the Water Operations Fund is expected in 2004. In January 2004 the Board of Directors approved loans totaling more than \$100 million for a jointly owned wastewater treatment facility. Approximately 40% of this project will be funded by the WRBP in the Water Operation Fund, and the balance will be funded by the WPCRF. In February 2004, a water and sanitation district submitted an application for a \$105 million WRBP loan for the construction of a dam, treatment plant and pump station.

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Total Enterprise Funds		Schedule 9
<u>2004 Authority Budget for Water Project Loans</u>		
Fund	Loan budget (millions)	
Water Operations Fund	\$	316.5
Water Pollution Control Revolving Fund		85.2
Drinking Water Revolving Fund		31.3
Total loans	\$	433.0

The demand for loans in the Water Pollution Control Enterprise Fund is expected to remain very strong in 2004. To accommodate this demand, all of the estimated WPCRF loan capacity has been included in the 2004 budget. To help meet this demand in 2004, the EPA and the Governor approved the return transfer of \$6.7 million in capitalization grant funds from the DWRF to the WPCRF in 2003. As discussed above, the \$100 million wastewater project will be funded about 60% from the WPCRF, and 40% from the Water Operations Fund, thereby reserving WPCRF loan capacity for other potential borrowers.

The Drinking Water Enterprise Fund is expecting a moderate loan demand in 2004. That demand, coupled with the transfer of grant funds back to the WPCRF, resulted in all of the DWRF loan capacity being included in the 2004 budget.

To fund the loans discussed above, the Authority has included in the respective enterprise fund budgets sufficient resources from additional bond issues and capitalization grants as needed and available. Furthermore, budget provisions for loan repayment revenue and bond debt service were made, including the new financing activities for 2004.

The Authority plans to continue subsidizing loan interest rates for both the WPCRF and DWRF in 2004. Unobligated grant funds available for loans at December 31, 2003 for the WPCRF totaled \$12.8 million. All of the DWRF grant funds have been obligated. Furthermore, the Authority is applying to the EPA for Colorado's share of the revolving fund grants for 2004. The grant amounts (available for loans) being applied for are \$10.2 million for the WPCRF and \$10.4 million for the DWRF. The 2004 WPCRF and DWRF budgets utilize remaining unobligated grant funds and the anticipated 2004 grants. Funds for the 2004 grants have been appropriated by Congress, and the Authority submitted applications for the State's allotment in March 2004. Estimated reloan funds of \$25.1 million and \$8.4 million for WPCRF and DWRF, respectively, will be available to augment the EPA grant funds for making loans in 2004.

Requests for Information

This financial report was designed to provide a general overview for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to:

Duane Dohrer, Controller
Colorado Water Resources & Power Development Authority
1580 Logan Street, Suite 620
Denver, CO 80203

BASIC FINANCIAL STATEMENTS

**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

Statements of Net Assets

December 31, 2003

Assets	Water Operations	Water Pollution Control	Drinking Water	Totals
Current assets:				
Cash and cash equivalents	\$ 48,210,320	19,687,494	16,845,455	84,743,269
Federal grants receivable	—	39,942	103,903	143,845
Investment income receivable	310,118	355,390	162,114	827,622
Loans receivable	9,685,965	23,240,877	7,667,978	40,594,820
Due from other funds	428,459	—	—	428,459
Accounts receivable – borrowers	444,223	4,218,664	1,575,436	6,238,323
Accounts receivable – other	59,707	—	—	59,707
Restricted assets:				
Cash and cash equivalents	19,361,476	17,166,516	8,956,772	45,484,764
Investments	1,500,000	60,787,273	36,013,371	98,300,644
Investment income receivable	17,506	1,354,453	491,709	1,863,668
Total current assets	<u>80,017,774</u>	<u>126,850,609</u>	<u>71,816,738</u>	<u>278,685,121</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	9,199,195	—	—	9,199,195
Investments	6,361,034	139,509,386	45,275,380	191,145,800
Investment income receivable	13,057	2,423,986	495,046	2,932,089
Advance receivable	9,535,781	—	—	9,535,781
Loans receivable	127,000,000	381,980,089	170,546,121	679,526,210
Water depletion rights – Animas-La Plata	2,243,278	—	—	2,243,278
Capital assets – equipment, net of accumulated depreciation of \$126,472	25,924	15,269	15,269	56,462
Other assets	558,206	—	—	558,206
Total noncurrent assets	<u>154,936,475</u>	<u>523,928,730</u>	<u>216,331,816</u>	<u>895,197,021</u>
Total assets	<u>\$ 234,954,249</u>	<u>650,779,339</u>	<u>288,148,554</u>	<u>1,173,882,142</u>
Liabilities and Fund Net Assets				
Current liabilities:				
Bonds payable	\$ 6,690,000	20,450,000	6,300,000	33,440,000
Accrued interest payable	1,039,722	6,294,900	2,281,674	9,616,296
Accounts payable – borrowers	821,296	—	—	821,296
Due to other funds	—	184,078	244,381	428,459
Accounts payable – other	395,410	—	78,926	474,336
Project costs payable – direct loans	—	528,387	3,014,214	3,542,601
Project costs payable – leveraged loans	15,005,994	68,101,609	36,541,467	119,649,070
Total current liabilities	<u>23,952,422</u>	<u>95,558,974</u>	<u>48,460,662</u>	<u>167,972,058</u>
Noncurrent liabilities:				
Project costs payable – direct loans	—	—	—	—
Project costs payable – leveraged loans	—	400,000	2,138,000	2,538,000
Advance payable	—	9,535,781	—	9,535,781
Bonds payable, net	127,388,333	350,590,562	145,190,000	623,168,895
Deferred revenue	27,079	270,635	—	297,714
Debt service reserve deposit	600,000	—	—	600,000
Other liabilities	383,735	4,152,849	2,146,771	6,683,355
Total noncurrent liabilities	<u>128,399,147</u>	<u>364,949,827</u>	<u>149,474,771</u>	<u>642,823,745</u>
Total liabilities	<u>152,351,569</u>	<u>460,508,801</u>	<u>197,935,433</u>	<u>810,795,803</u>
Fund net assets:				
Invested in capital assets	25,924	15,269	15,269	56,462
Restricted	21,383,146	190,255,269	77,569,688	289,208,103
Unrestricted	61,193,610	—	12,628,164	73,821,774
Total fund net assets	<u>82,602,680</u>	<u>190,270,538</u>	<u>90,213,121</u>	<u>363,086,339</u>
Total liabilities and fund net assets	<u>\$ 234,954,249</u>	<u>650,779,339</u>	<u>288,148,554</u>	<u>1,173,882,142</u>

See accompanying notes to basic financial statements.

**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

Statements of Net Assets

December 31, 2002

Assets	Water Operations	Water Pollution Control	Drinking Water	Totals
Current assets:				
Cash and cash equivalents	\$ 46,548,452	11,041,586	18,866,819	76,456,857
Federal grants receivable	—	81,020	388,120	469,140
Investment income receivable	289,845	459,780	194,669	944,294
Loans receivable	8,054,334	20,792,144	6,510,537	35,357,015
Due from other funds	889,392	—	—	889,392
Accounts receivable – borrowers	246,991	4,135,722	1,279,076	5,661,789
Accounts receivable – other	4,459	—	—	4,459
Restricted assets:				
Cash and cash equivalents	14,719,496	23,485,129	8,839,588	47,044,213
Investments	—	68,256,395	6,224,520	74,480,915
Investment income receivable	25,792	1,550,399	232,516	1,808,707
Total current assets	<u>70,778,761</u>	<u>129,802,175</u>	<u>42,535,845</u>	<u>243,116,781</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	4,283,402	—	—	4,283,402
Investments	15,822,636	182,183,248	47,436,451	245,442,335
Investment income receivable	35,230	3,078,833	732,186	3,846,249
Advance receivable	11,307,347	—	—	11,307,347
Loans receivable	106,055,833	389,998,669	139,471,317	635,525,819
Water depletion rights – Animas-La Plata	1,081,405	—	—	1,081,405
Capital assets – equipment, net of accumulated depreciation of \$136,717	2,872	15,154	15,154	33,180
Other assets	9,394	—	—	9,394
Total noncurrent assets	<u>138,598,119</u>	<u>575,275,904</u>	<u>187,655,108</u>	<u>901,529,131</u>
Total assets	<u>\$ 209,376,880</u>	<u>705,078,079</u>	<u>230,190,953</u>	<u>1,144,645,912</u>
Liabilities and Fund Net Assets				
Current liabilities:				
Bonds payable	\$ 5,245,000	19,265,000	5,345,000	29,855,000
Accrued interest payable	917,660	6,299,091	2,044,309	9,261,060
Accounts payable – borrowers	2,428,339	—	—	2,428,339
Due to other funds	—	319,966	569,426	889,392
Accounts payable – other	802,160	81,582	—	883,742
Project costs payable – direct loans	—	924,659	2,523,871	3,448,530
Project costs payable – leveraged loans	9,660,938	80,476,909	6,739,260	96,877,107
Total current liabilities	<u>19,054,097</u>	<u>107,367,207</u>	<u>17,221,866</u>	<u>143,643,170</u>
Noncurrent liabilities:				
Project costs payable – direct loans	—	130,701	213,621	344,322
Project costs payable – leveraged loans	2,043,918	53,757,556	7,559,345	63,360,819
Advance payable	—	11,307,347	—	11,307,347
Bonds payable, net	106,363,333	356,190,998	118,960,000	581,514,331
Deferred revenue	41,207	293,188	—	334,395
Debt service reserve deposit	600,000	—	—	600,000
Other liabilities	547,775	4,481,160	2,034,413	7,063,348
Total noncurrent liabilities	<u>109,596,233</u>	<u>426,160,950</u>	<u>128,767,379</u>	<u>664,524,562</u>
Total liabilities	<u>128,650,330</u>	<u>533,528,157</u>	<u>145,989,245</u>	<u>808,167,732</u>
Fund net assets:				
Invested in capital assets	2,872	15,154	15,154	33,180
Restricted	16,565,244	171,534,768	68,379,804	256,479,816
Unrestricted	64,158,434	—	15,806,750	79,965,184
Total fund net assets	<u>80,726,550</u>	<u>171,549,922</u>	<u>84,201,708</u>	<u>336,478,180</u>
Total liabilities and fund net assets	<u>\$ 209,376,880</u>	<u>705,078,079</u>	<u>230,190,953</u>	<u>1,144,645,912</u>

See accompanying notes to basic financial statements.

**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Year ended December 31, 2003

	Water Operations	Water Pollution Control	Drinking Water	Totals
Operating revenues:				
Interest on loans	\$ 6,525,096	8,575,742	4,212,884	19,313,722
Interest on investments	2,438,377	10,935,359	3,218,426	16,592,162
Surcharge from borrowers	—	592,497	—	592,497
Administrative fee	—	4,006,729	1,553,216	5,559,945
EPA grants	—	365,188	2,780,611	3,145,799
Other	1,631	65,082	27,699	94,412
Total operating revenues	<u>8,965,104</u>	<u>24,540,597</u>	<u>11,792,836</u>	<u>45,298,537</u>
Operating expenses:				
Interest on bonds	6,362,280	19,353,391	6,485,194	32,200,865
Grant administration	—	1,211,440	1,040,152	2,251,592
Project expenses	209,995	—	—	209,995
General and administrative	516,699	1,697	1,697	520,093
EPA set asides	—	—	2,429,366	2,429,366
Other	—	104,456	66,860	171,316
Total operating expenses	<u>7,088,974</u>	<u>20,670,984</u>	<u>10,023,269</u>	<u>37,783,227</u>
Operating income	1,876,130	3,869,613	1,769,567	7,515,310
EPA capitalization grants	—	14,851,003	4,241,846	19,092,849
Change in net assets	1,876,130	18,720,616	6,011,413	26,608,159
Fund net assets – beginning of year	<u>80,726,550</u>	<u>171,549,922</u>	<u>84,201,708</u>	<u>336,478,180</u>
Fund net assets – end of year	<u>\$ 82,602,680</u>	<u>190,270,538</u>	<u>90,213,121</u>	<u>363,086,339</u>

See accompanying notes to basic financial statements.

**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Year ended December 31, 2002

	Water Operations	Water Pollution Control	Drinking Water	Totals
Operating revenues:				
Interest on loans	\$ 5,944,449	8,247,247	3,557,261	17,748,957
Interest on investments	3,427,154	12,813,566	3,602,342	19,843,062
Surcharge from borrowers	—	624,820	—	624,820
Administrative fee	—	3,662,878	1,239,576	4,902,454
EPA grants	—	341,565	3,038,001	3,379,566
Other	2,464	161,291	20,269	184,024
Total operating revenues	<u>9,374,067</u>	<u>25,851,367</u>	<u>11,457,449</u>	<u>46,682,883</u>
Operating expenses:				
Interest on bonds	5,927,012	17,902,940	6,059,369	29,889,321
Grant administration	—	1,161,206	953,118	2,114,324
Project expenses	258,148	—	—	258,148
General and administrative	503,766	—	—	503,766
EPA set asides	—	—	2,716,207	2,716,207
Other	—	69,657	19,506	89,163
Total operating expenses	<u>6,688,926</u>	<u>19,133,803</u>	<u>9,748,200</u>	<u>35,570,929</u>
Operating income	2,685,141	6,717,564	1,709,249	11,111,954
EPA capitalization grants	—	10,402,409	6,821,521	17,223,930
Contributions from Animas-La Plata	7,311,511	—	—	7,311,511
Change in net assets	9,996,652	17,119,973	8,530,770	35,647,395
Fund net assets – beginning of year	<u>70,729,898</u>	<u>154,429,949</u>	<u>75,670,938</u>	<u>300,830,785</u>
Fund net assets – end of year	<u>\$ 80,726,550</u>	<u>171,549,922</u>	<u>84,201,708</u>	<u>336,478,180</u>

See accompanying notes to basic financial statements.

**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

Statements of Cash Flows

Year ended December 31, 2003

	<u>Water Operations</u>	<u>Water Pollution Control</u>	<u>Drinking Water</u>	<u>Totals</u>
Cash flows from operating activities:				
Loan administrative fees received	\$ —	4,466,260	1,472,091	5,938,351
Federal funds received	—	406,266	3,064,828	3,471,094
Cash payments for salaries and related benefits	(372,862)	(325,640)	(231,554)	(930,056)
Cash payments to other state agencies for services	—	(758,218)	(697,110)	(1,455,328)
Cash payments to vendors	(357,844)	(317,941)	(2,932,758)	(3,608,543)
Net cash provided (used) by operating activities	<u>(730,706)</u>	<u>3,470,727</u>	<u>675,497</u>	<u>3,415,518</u>
Cash flows from noncapital financing activities:				
Proceeds from the sale of bonds	27,313,253	14,737,557	32,610,661	74,661,471
Federal funds received	—	14,851,003	4,241,846	19,092,849
Principal paid on bonds	(5,245,000)	(19,265,000)	(5,345,000)	(29,855,000)
Interest paid on bonds	(5,921,359)	(19,298,531)	(6,320,985)	(31,540,875)
Cash payment for bond issuance costs	(577,775)	(254,321)	(206,066)	(1,038,162)
Net cash provided (used) by noncapital financing activities	<u>15,569,119</u>	<u>(9,229,292)</u>	<u>24,980,456</u>	<u>31,320,283</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(26,889)	(1,812)	(1,812)	(30,513)
Cash flows from investing activities:				
Proceeds from sales or maturities of investments	7,961,602	83,438,188	8,763,885	100,163,675
Interest received on investments	2,769,020	13,124,751	3,618,403	19,512,174
Interest received on loans	6,228,461	8,547,518	3,997,650	18,773,629
Principal repayments from localities on loans	8,496,846	23,298,281	6,948,053	38,743,180
Cash received from (paid to) other accounts	1,771,566	(1,771,566)	—	—
Purchase of investments	—	(33,658,451)	(36,391,665)	(70,050,116)
Investment in water rights	(1,161,873)	—	—	(1,161,873)
Cash disbursed to localities for loans	(27,659,686)	(83,642,441)	(14,217,616)	(125,519,743)
Cash payment for arbitrage rebate	(168,824)	(1,248,608)	(277,031)	(1,694,463)
Cash payments of interest to borrowers	(1,828,995)	—	—	(1,828,995)
Net cash provided (used) by investing activities	<u>(3,591,883)</u>	<u>8,087,672</u>	<u>(27,558,321)</u>	<u>(23,062,532)</u>
Net increase (decrease) in cash and cash equivalents	11,219,641	2,327,295	(1,904,180)	11,642,756
Cash and cash equivalents, beginning of year	65,551,350	34,526,715	27,706,407	127,784,472
Cash and cash equivalents, end of year	<u>\$ 76,770,991</u>	<u>36,854,010</u>	<u>25,802,227</u>	<u>139,427,228</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 1,876,130	3,869,613	1,769,567	7,515,310
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	3,838	1,697	1,697	7,232
Accrued sick leave expense	5,600	—	—	5,600
Interest on bonds	6,362,280	19,353,392	6,497,742	32,213,414
Cost of issuance proceeds	—	(65,082)	(27,699)	(92,781)
Interest on loans	(6,525,096)	(8,575,742)	(4,212,884)	(19,313,722)
Interest on investments	(2,438,377)	(10,935,359)	(3,218,426)	(16,592,162)
Put fees on Treasury bonds	—	49,985	—	49,985
Amortization of deferred revenue	(14,128)	(22,553)	—	(36,681)
Change in assets and liabilities:				
Decrease in due from other funds	464,825	—	—	464,825
(Increase) in accounts receivable – borrowers	—	(106,521)	(93,673)	(200,194)
Decrease in other receivables	—	41,078	284,217	325,295
(Decrease) in accounts payable – other	(465,778)	—	—	(465,778)
(Decrease) in due to other funds	—	(139,781)	(325,044)	(464,825)
Net cash provided (used) by operating activities	<u>\$ (730,706)</u>	<u>3,470,727</u>	<u>675,497</u>	<u>3,415,518</u>

See accompanying notes to basic financial statements.

**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

Statements of Cash Flows

Year ended December 31, 2002

	<u>Water Operations</u>	<u>Water Pollution Control</u>	<u>Drinking Water</u>	<u>Totals</u>
Cash flows from operating activities:				
Loan administrative fees received	\$ —	4,023,053	1,149,566	5,172,619
Federal funds received	—	339,810	2,914,789	3,254,599
Cash received – set aside state match reimbursement	—	—	4,022	4,022
Cash received for tenant finish allowance	42,384	—	—	42,384
Cash payments for salaries and related benefits	(333,088)	(262,327)	(195,168)	(790,583)
Cash payments to other state agencies for services	—	(693,040)	(605,624)	(1,298,664)
Cash payments to vendors	(313,002)	(295,322)	(2,756,306)	(3,364,630)
Net cash provided (used) by operating activities	<u>(603,706)</u>	<u>3,112,174</u>	<u>511,279</u>	<u>3,019,747</u>
Cash flows from noncapital financing activities:				
Proceeds from the sale of bonds	14,659,365	81,675,025	16,193,464	112,527,854
Federal funds received	—	10,402,409	6,821,521	17,223,930
Contributions from Animas-La Plata	7,278,497	—	—	7,278,497
Principal paid on bonds	(4,930,000)	(16,505,000)	(4,840,000)	(26,275,000)
Interest paid on bonds	(5,524,049)	(16,824,657)	(5,912,996)	(28,261,702)
Cash payment for bond issuance costs	(109,632)	(632,672)	(141,040)	(883,344)
Net cash provided by noncapital financing activities	<u>11,374,181</u>	<u>58,115,105</u>	<u>12,120,949</u>	<u>81,610,235</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	—	(4,346)	(4,346)	(8,692)
Cash flows from investing activities:				
Proceeds from sales or maturities of investments	46,899,656	48,956,353	18,030,920	113,886,929
Interest received on investments	4,275,444	12,493,677	3,877,288	20,646,409
Interest received on loans	5,911,633	8,240,173	3,367,464	17,519,270
Principal repayments from localities on loans	5,695,341	17,607,427	5,784,044	29,086,812
Cash received from (paid to) other accounts	922,301	(922,301)	—	—
Purchase of investments	(11,500,000)	(111,179,770)	(20,896,878)	(143,576,648)
Investment in water rights	(1,081,405)	—	—	(1,081,405)
Cash disbursed to localities for loans	(29,103,128)	(49,841,077)	(18,952,829)	(97,897,034)
Cash payment for arbitrage rebate	(29,295)	(1,082,186)	(722,343)	(1,833,824)
Cash payments of interest to borrowers	(749,642)	—	—	(749,642)
Net cash provided (used) by investing activities	<u>21,240,905</u>	<u>(75,727,704)</u>	<u>(9,512,334)</u>	<u>(63,999,133)</u>
Net increase (decrease) in cash and cash equivalents	32,011,380	(14,504,771)	3,115,548	20,622,157
Cash and cash equivalents, beginning of year	33,539,970	49,031,486	24,590,859	107,162,315
Cash and cash equivalents, end of year	<u>\$ 65,551,350</u>	<u>34,526,715</u>	<u>27,706,407</u>	<u>127,784,472</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 2,685,141	6,717,564	1,709,249	11,111,954
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	10,361	—	—	10,361
Accrued sick leave expense	6,199	—	—	6,199
Interest on bonds	5,927,012	17,902,940	6,059,369	29,889,321
Cost of issuance proceeds	—	(161,291)	(16,247)	(177,538)
Interest on loans	(5,944,449)	(8,247,247)	(3,557,261)	(17,748,957)
Interest on investments	(3,427,154)	(12,813,566)	(3,602,342)	(19,843,062)
Amortization of deferred revenue	(1,177)	(22,553)	—	(23,730)
Change in assets and liabilities:				
(Increase) in due from other funds	(111,898)	—	—	(111,898)
(Increase) in accounts receivable – borrowers	—	(238,093)	(90,010)	(328,103)
(Increase) decrease in other receivables	45,021	(5,745)	(123,212)	(83,936)
Increase in accounts payable – other	166,031	—	—	166,031
Increase in deferred revenue	41,207	—	—	41,207
Increase (decrease) in due to other funds	—	(19,835)	131,733	111,898
Net cash provided (used) by operating activities	<u>\$ (603,706)</u>	<u>3,112,174</u>	<u>511,279</u>	<u>3,019,747</u>

See accompanying notes to basic financial statements.

**COLORADO WATER RESOURCES
AND POWER DEVELOPMENT AUTHORITY**

Notes to Basic Financial Statements

December 31, 2003 and 2002

(1) Organization

The Colorado Water Resources and Power Development Authority (the Authority) is a political subdivision of the State of Colorado (the State) established pursuant to the Colorado Water Resources and Power Development Act, Title 37, article 95 of the Colorado Revised Statutes, as amended. The Authority is governed by a nine member board of directors who are appointed by the Governor of the State of Colorado with consent of the Colorado State Senate.

Reporting Entity

The Authority follows the 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 governmental organization's governing body as the basic criterion for including a possible governmental component unit in a primary government's financial reporting entity. Financial accountability includes, but is not limited to, appointment of a voting 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. Under current GASB pronouncements, the Authority has been determined to be a component unit of the State of Colorado (the primary government). As such, the Authority's financial statements are included in the basic financial statements issued by the State of Colorado (State).

The Authority was created to initiate, acquire, construct, maintain, repair, and operate or cause to be operated projects for the protection, preservation, conservation, upgrading, development, and utilization of the water resources of the State. The Authority is authorized to issue bonds, notes or other obligations which constitute its debt and not debt of the State.

Water Operations Enterprise Fund

One of the activities of the Water Operations Enterprise Fund is to administer the Small Water Resources Projects Program (SWRP). Although the Authority is statutorily authorized to finance individual water resources project loans up to \$500 million, the program is currently limited by contract to \$150 million of total outstanding debt (excluding refunding bonds). All costs of project development may be financed through the SWRP.

Pursuant to the SWRP, proceeds of the bonds issued by the Authority are to be used to fund loans to local governmental agencies. Each local government evidences its obligations under its loan agreement by the issuance to the Authority of a governmental agency bond which is to be secured by a pledge of a specific revenue source or by a general obligation pledge. The repayments pursuant to the loan agreements by the local governmental agencies participating in the SWRP are structured, in the aggregate, to provide amounts sufficient to pay the principal and interest on the bonds issued by the Authority. The SWRP Debt Service Reserve for the bonds issued by the Authority is funded by the Authority from available monies of the Authority. The principal and interest on the bonds issued by the Authority have been insured as to repayment to the bondholders.

**COLORADO WATER RESOURCES
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Notes to Basic Financial Statements

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In addition to the Small Water Resources Projects Program, in 1998 the Authority established the Water Revenue Bonds Program (WRBP) as part of the Water Operations Fund. The WRBP was created to fund those projects that cannot be approved under the Small Water Resources Projects Program and are not eligible for funding or there is insufficient loan capacity under the Drinking Water Revolving Fund or the Water Pollution Control Revolving Fund. The Authority is authorized to finance individual water resources project loans of \$500 million or less. All costs of project development may be financed through the WRBP.

Animas-La Plata Project

In 2001, the Authority entered into an agreement with the Animas-La Plata Water Conservancy District (the District) to have the Authority fund the payment of the non-tribal water capital obligation of the reconfigured Animas-La Plata project attributable to the District's depletion allocation. As a result of this agreement, the Authority entered into a Funding Agreement and Repayment Contract with the United States Bureau of Reclamation (the Bureau), to fund this upfront capital obligation. During 2002, construction was initiated on the project. As a result of the congressional approved legislation and these agreements, \$7.3 million was transferred from the Animas-La Plata account to the Water Operations Fund in 2002. The Authority is making progress payments to the Bureau for the purchase of 2,600 acre-feet of average annual depletion from the project. Payments to the Bureau totaled \$1,161,873 and \$1,081,405 in 2003 and 2002, respectively. During 2002, the Authority entered into a marketing agreement with the District to promote the sale of these water depletion rights.

Water Pollution Control Enterprise Fund

The Water Pollution Control Enterprise Fund includes the operations of the Water Pollution Control Revolving Fund (WPCRF), also known as the State Revolving Fund, and the Nonrevolving Fund. The Nonrevolving Fund accounts for administrative grant proceeds and loan administrative fees.

The WPCRF was created by State statute (CRS 37-98-107.6) in response to the mandate from the Federal Clean Water Act of 1987 (Act). The Authority was authorized statutorily to implement the revolving loan portion of the Act. The WPCRF was established for the purpose of financing loans to local governmental agencies for the construction of publicly owned wastewater treatment projects that meet specified eligibility requirements and that are placed on a project eligibility list established in accordance with State statute.

Pursuant to statutes, with the written consent of the Colorado Department of Public Health and Environment, the Authority is authorized, on behalf of the State, to execute all operating agreements and capitalization grant agreements with the United States Environmental Protection Agency (EPA). The Authority, the Water Quality Control Division of the Colorado Department of Public Health and Environment, and the Division of Local Government of the Colorado Department of Local Affairs have entered into a Memorandum of Understanding under which each has agreed to assume specified responsibilities in connection with the operation of the WPCRF. The statutes also authorize the Authority to issue bonds for such purposes and to designate assets in the WPCRF that may be pledged and assigned as security for payment of such bonds.

**COLORADO WATER RESOURCES
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Notes to Basic Financial Statements

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The WPCRF is capitalized by grants awarded by the EPA. Matching funds are provided by the Authority or its borrowers. In order to receive capitalization grants, matching funds must be provided in a ratio of \$1 of state match for every \$5 of capitalization grants. Administrative expense reimbursements funded by EPA capitalization grants are limited to a percentage (5/6th of 4%) of the capitalization grants.

The Authority issues bonds to provide loans to local governmental entities, either individually or in pools. Loans to borrowers may be provided from federal grants and/or from bond proceeds. The matching requirement for the federal grants is provided by the Authority in the form of cash.

When a loan to a local governmental agency is funded from the proceeds of bonds, the Authority allocates a specified amount from its federal capitalization grant for deposit to the project account(s). An amount of bond proceeds equal to the allocated capitalization grant is transferred to a reserve account as project draws are made. Earnings on such reserve are used to reduce the loan interest payable by the borrower.

Each local governmental agency evidences its obligation to the Authority under its loan agreement by the issuance to the Authority of a governmental agency bond, which is secured by a pledge of a specific revenue source or by a general obligation pledge. The loan repayments made by the local governmental agencies pursuant to direct loan agreements are structured, in the aggregate, to provide amounts sufficient to repay the Authority principal and stated interest (which includes an administrative surcharge). The loan repayments made by the local governmental agencies pursuant to leveraged loan agreements are structured, in the aggregate, to provide amounts sufficient to repay principal, premium (if any) and interest (less certain expected investment earnings) on the bonds issued by the Authority for the leveraged loans, as well as cash advances or bonds issued to provide the state matching requirements (if needed), and an administrative surcharge.

Loans are made at or below market interest rates (at terms generally not exceeding 20 years plus the construction period) with principal and interest payments commencing not later than one year after completion of the borrowers' projects.

Drinking Water Enterprise Fund

Drinking Water Revolving Fund

The Drinking Water Enterprise Fund includes the operations of the Drinking Water Revolving Fund (DWRF), also known as the State Revolving Fund, and the Nonrevolving Fund. The Nonrevolving Fund accounts for Safe Drinking Water set asides, including administrative grant proceeds, state direct loan program and loan administrative fees.

The DWRF was created by State statute (CRS 37-95-107.8) in 1995, in anticipation of the reauthorization of the Federal Safe Drinking Water Act (SDWA). The SDWA was reauthorized in 1996 with a state revolving fund loan program. The DWRF was established to provide assistance to governmental agencies for projects that appear on the *Drinking Water Project Eligibility List* (the List). The List, established in accordance with State statute, consists of new or existing water management facilities that extend, protect, improve, or replace domestic drinking water supplies in the State of Colorado and for any other means specified in the SDWA.

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December 31, 2003 and 2002

Pursuant to statutes, with the written consent of the Colorado Department of Public Health and Environment, the Authority is authorized, on behalf of the State, to execute all operating agreements and capitalization grant agreements with the EPA. The Authority, the Water Quality Control Division of the Colorado Department of Public Health and Environment and the Division of Local Government of the Colorado Department of Local Affairs have entered into a Memorandum of Understanding under which each has agreed to assume specified responsibilities in connection with the operation of the DWRF. The statutes also authorize the Authority to issue bonds for such purposes and to designate assets in the DWRF that may be pledged and assigned as security for payment of such bonds.

The DWRF is capitalized by grants awarded by the EPA. Matching funds are provided by the Authority. In order to receive capitalization grants, matching funds must be provided in a ratio of \$1 of state match for every \$5 of total capitalization grants. Administrative expense reimbursements funded by EPA capitalization grants are limited to a percentage (4%) of the capitalization grants.

The Authority issues bonds to provide loans to local governmental agencies, either individually or in pools. Loans/grants to borrowers may be provided from federal grants and/or from bond proceeds. The matching requirement for the federal grants is provided by the Authority in the form of cash.

When a loan to a local governmental agency is funded from the proceeds of bonds, the Authority allocates a specific amount from its federal capitalization grant for deposit to the project account(s). An amount of bond proceeds equal to the allocated capitalization grant is transferred to a reserve fund as project draws are made. Earnings on such reserve are used to reduce the loan interest payable by the borrower.

Each local governmental agency evidences its obligation to the Authority under its loan agreement by the issuance to the Authority of a governmental agency bond, which is secured by a pledge of a specific revenue source or by a general obligation pledge. The loan repayments made by the local governmental agencies pursuant to direct loan agreements are structured, in the aggregate, to provide amounts sufficient to repay the Authority principal and stated interest (which includes an administrative surcharge). The loan repayments made by the local governmental agencies pursuant to leveraged loan agreements are structured, in the aggregate, to provide amounts sufficient to repay principal, premium (if any) and interest (less certain expected investment earnings) on the bonds issued by the Authority for the leveraged loans, as well as cash advances or bonds issued to provide the state matching requirements (if needed), and an administrative surcharge.

Loans are made at or below market interest rates (at terms generally not exceeding 20 years plus the construction period) with principal and interest payments commencing not later than one year after completion of the borrowers' projects.

Set Asides

The SDWA allows the State to "set aside" up to 31% of the annual capitalization grant for water quality programs and administration. With these set asides, the Authority, through the Water Quality Control Division of the Colorado Department of Public Health and Environment, provides assistance in the form of grants, with no repayment obligations, to eligible entities. Up to 10% of the Authority's capitalization grants may be used for source water protection, capacity development, public water system supervision, and wellhead protection. In 1997, the entire 10% was used for source water protection, but since then no

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further funds have been set aside for this activity. Up to 15% (no more than 10% for any one purpose) of each grant may be used for the following items: loans for public water systems to acquire land or conversion easements, loans for community systems to implement source water protection measures or to implement recommendations in source water petitions, technical, and financial assistance to public water systems for capacity development, expenditures to delineate or assess source water protection areas, and expenditures to establish and implement wellhead protection programs. Four percent of the Authority's capitalization grants may be used for administration, and up to two percent of the capitalization grants each year may be used for an operator training and technical assistance set aside to aid small community systems.

The Authority deposits the matching requirement (20%) for set aside grants in the State Revolving Fund at closing for the Drinking Water Revenue Bond issues.

State Loans

Prior to receiving the award of the federal capitalization grant, the DWRP loaned State-funded monies directly to local governmental agencies.

(2) Summary of Significant Accounting Policies

The significant accounting policies of the Authority are described as follows:

(a) Fund Accounting

The Authority is engaged only in business-type activities. To account for these activities, the accounts of the Authority are organized on the basis of three separate enterprise funds, each of which is considered a separate accounting entity. The accounting policies of the Enterprise Funds (Water Operations Fund, Water Pollution Control Fund and Drinking Water Fund) conform to accounting principles generally accepted in the United States of America as applicable to governmental units accounted for as enterprise funds. Enterprise funds are used since the Authority's powers are related to those operated in a manner similar to a financing institution where net income and capital maintenance are appropriate determinations of accountability. Each Enterprise Fund is considered a major fund in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

(b) Basis of Accounting

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when earned and expenses when incurred. The Authority has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Authority elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20.

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(c) Cash Equivalents

The Authority considers cash deposits held by State Treasurer, money market mutual funds, investment pools, and other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(d) Loans Receivable

Loans receivable represent outstanding principal amounts lent to borrowers for the construction of water and wastewater projects. An allowance for uncollectible loans receivable has not been established since historical collection experience has shown amounts to be fully collected when due.

(e) Restricted Assets

Restricted assets represent cash and cash equivalents, investments, and investment income receivable contained in project accounts, debt service accounts, debt service reserve accounts, and the Animas-La Plata escrow account.

(f) Capital Assets – Equipment

Equipment is recorded at cost. Depreciation expense is computed using the straight-line method over the estimated economic useful life of five years.

(g) Amortization

The deferred costs on bond refundings are amortized using the interest method over the life of the outstanding bonds. The amortization amount is a component of interest on bonds, and the unamortized deferred costs are reflected as a reduction of bonds payable. An advance payment of administrative fees from refunding bond proceeds is recorded as deferred revenue, and is being amortized over the life of the respective bonds.

(h) Compensated Absences

The Authority has a policy which allows employees to accumulate unused vacation and sick leave benefits up to a certain maximum number of days. Compensated absences are recognized as current salary costs are incurred.

(i) Project Costs Payable

Project costs payable represents the principal amounts loaned to borrowers that have not been requisitioned by the borrowers for their projects as of year end.

(j) Advance Receivable and Payable

The Water Operations Fund makes advances to the WPCRF for the purpose of financing the WPCRF's capitalization grant matching requirements. The advance is non-interest bearing. The advance is repaid from surplus WPCRF loan administrative fees.

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(k) *Restricted Net Assets*

Net assets of the Authority are classified as restricted when external constraints imposed by debt agreements, grantors, or laws are placed on net asset use.

(l) *Operating Revenues and Expenses*

Substantially all revenues and expenses, including interest received on investments and loans and interest paid on bonds, are considered operating items since the Authority issues bonds to finance loans for specific projects. In accordance with GASB Statement No. 34, federal capital contributions and contributions from the Animas-La Plata account are shown below operating income on the statements of revenues, expenses, and changes in fund net assets.

(m) *Use of Estimates*

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management of the Authority to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ significantly from those estimates.

(n) *Reclassifications*

Certain prior year balances have been reclassified to conform to the current year presentation.

(3) *Deposits and Investments*

(a) *Deposits*

The Colorado Public Deposit Protection Act (PDPA) requires that all units of Colorado government deposit cash in eligible public depositories. Eligibility is determined by State regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another financial institution or held in trust. The fair value of the collateral must be at least equal to the aggregate uninsured deposits.

The State regulatory commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2003 and 2002, the Authority's deposits had a bank balance of \$568,339 and \$42,013 and a carrying amount of \$358,914 and \$37,907, respectively. The differences between the bank balances and carrying amounts are due to outstanding reconciling items (primarily outstanding checks) at year end. The Authority's bank balances were entirely insured by federal depository insurance at December 31, 2003 and 2002.

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(b) Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which Colorado governmental units may invest, which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market mutual funds
- Guaranteed investment contracts
- Local government investment pools

The Authority's investments are recorded at fair value and are categorized below to give an indication of the level of custodial credit risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Authority's name.

Category 3 investments include investments held by trustees pursuant to bond indentures. These investments were acquired by the trustees at the direction of the Authority. Investments are held in the trustee's bank account at the Federal Reserve in book entry form. Consequently, the trustees are considered to be the purchaser as well as the custodian of the investments.

Investments in local government investment pools or in money market mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

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Cash, cash equivalents, and investments at December 31, 2003 are categorized as follows:

	Category 1	2	3	Total
Repurchase agreements – collateralized with U.S. Treasury obligations	\$ —	—	257,223,187	257,223,187
U.S. Treasury Bonds	—	—	10,111,223	10,111,223
U.S. Treasury Notes	22,112,034	—	—	22,112,034
	\$ 22,112,034	—	267,334,410	289,446,444

Investment Pools or Money Market Mutual Funds:

Cash held by State Treasurer			\$ 62,038,104	
Local government investment pool – COLOTRUST PLUS+			77,030,210	
			139,068,314	
Total cash equivalents not categorized			139,068,314	
Total investments and cash equivalents			428,514,758	
Total deposits			358,914	
Total cash, cash equivalents, and investments			\$ 428,873,672	

Cash, cash equivalents, and investments at December 31, 2002 are categorized as follows:

	Category 1	2	3	Total
Repurchase agreements – collateralized with U.S. Treasury obligations	\$ —	—	287,029,579	287,029,579
U.S. Treasury Bonds	—	—	10,569,071	10,569,071
U.S. Treasury Notes	22,324,600	—	—	22,324,600
	\$ 22,324,600	—	297,598,650	319,923,250

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Investment Pools or Money Market Mutual Funds:	
Cash held by State Treasurer	\$ 63,781,342
Local government investment pool – COLOTRUST PLUS+	47,385,564
Money market mutual funds	<u>16,579,659</u>
Total cash equivalents not categorized	127,746,565
Total investments and cash equivalents	447,669,815
Total deposits	<u>37,907</u>
Total cash, cash equivalents, and investments	<u><u>\$ 447,707,722</u></u>

Cash held by State Treasurer has been invested in the State Treasurer’s cash pool. A detailed composition of the cash and investments in this pool is available in the annual State Treasurer’s Report.

Colorado Local Government Liquid Asset Trust (the COLOTRUST) is an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust’s portfolios pursuant to a custodian agreement. The custodian acts as a safekeeping agent for the Trust’s investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian’s internal records segregate investments owned by the Trust. As of December 31, 2003 and 2002, the Authority had \$77,030,210 and \$47,385,564 invested in COLOTRUST PLUS+, respectively.

As of December 31, 2002, the Authority had invested \$16,579,659 in the Milestone Treasury Obligation Portfolio. This account is a money market mutual fund which may invest only in U.S. Treasury obligations and repurchase agreements fully collateralized by U.S. Treasury obligations. As of December 31, 2003, the Authority did not have any amounts invested in money market mutual funds.

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(4) Loans Receivable

The following is an analysis of changes in loans receivable for the years ended December 31, 2003 and 2002:

	<u>Balance January 1, 2003</u>	<u>New loans</u>	<u>Repayments/ loans canceled</u>	<u>Balance December 31, 2003</u>
Water Operations Fund:				
Small Water Resources Program	\$ 108,257,083	9,610,000	4,762,500	113,104,583
Water Revenue Bond Program	2,535,000	17,760,000	160,000	20,135,000
Interim loans	3,318,084	3,702,643	3,574,345	3,446,382
Water Pollution Control Fund:				
Direct loans	13,570,606	1,550,000	765,470	14,355,136
Leveraged loans	397,220,207	16,178,433	22,532,810	390,865,830
Drinking Water Fund:				
Direct loans	12,172,575	3,181,198	1,230,202	14,123,571
Leveraged loans	133,809,279	36,134,600	5,853,351	164,090,528
	<u>670,882,834</u>	<u>\$ 88,116,874</u>	<u>38,878,678</u>	<u>720,121,030</u>
Less current portion	<u>35,357,015</u>			<u>40,594,820</u>
Noncurrent portion	<u>\$ 635,525,819</u>			<u>679,526,210</u>

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	<u>Balance January 1, 2002</u>	<u>New loans</u>	<u>Repayments/ loans canceled</u>	<u>Balance December 31, 2002</u>
Water Operations Fund:				
Small Water Resources				
Program	\$ 98,055,417	14,615,000	4,413,334	108,257,083
Water Revenue Bond				
Program	2,685,000	—	150,000	2,535,000
Interim loans	—	4,450,091	1,132,007	3,318,084
Water Pollution Control Fund:				
Direct loans	13,445,720	1,000,000	875,114	13,570,606
Leveraged loans	332,446,746	81,972,699	17,199,238	397,220,207
Drinking Water Fund:				
Direct loans	8,531,008	4,200,000	558,433	12,172,575
Leveraged loans	121,355,759	17,754,659	5,301,139	133,809,279
	<u>576,519,650</u>	<u>\$ 123,992,449</u>	<u>29,629,265</u>	<u>670,882,834</u>
Less current portion	<u>28,020,341</u>			<u>35,357,015</u>
Noncurrent portion	<u>\$ 548,499,309</u>			<u>635,525,819</u>

Scheduled maturities of the loans receivable are as follows:

	<u>Water operations</u>		<u>WPCRF</u>		<u>DWRF</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004	\$ 9,685,965	6,377,634	23,240,877	9,372,823	7,667,978	3,983,852	60,329,129
2005	6,791,667	6,288,234	22,806,250	10,617,485	7,864,596	4,439,609	58,807,841
2006	7,275,000	5,943,975	24,100,535	10,067,020	8,260,598	4,347,075	59,994,203
2007	7,627,500	5,588,145	25,105,613	9,693,419	8,732,001	4,159,181	60,905,859
2008	7,982,500	5,189,652	25,855,027	9,012,268	8,942,151	3,961,249	60,942,847
2009-2013	36,040,834	20,045,562	132,622,133	34,568,790	52,267,890	16,157,064	291,702,273
2014-2018	30,559,167	12,129,728	95,244,711	17,191,945	53,550,948	8,742,170	217,418,669
2019-2023	29,823,332	4,150,860	48,698,821	4,505,459	29,087,600	2,431,318	118,697,390
2024-2025	900,000	37,125	7,546,999	292,215	1,840,337	52,908	10,669,584
Total	<u>\$ 136,685,965</u>	<u>65,750,915</u>	<u>405,220,966</u>	<u>105,321,424</u>	<u>178,214,099</u>	<u>48,274,426</u>	<u>939,467,795</u>

The schedule above does not include administrative fees due from the borrowers, which are recorded as revenue when due.

The Water Operations Fund – Small Water Resources Program loans receivable, which had original amounts of \$144,535,000, have interest rates of 3.87% to 7.19% and have scheduled final maturity dates of 2004 to 2023. The Water Revenue Bond Program loans receivable, which had an original amount of \$20,900,000, has an interest rates of 1.92% to 7.08% and have scheduled maturity dates of 2004-2024.

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The WPCRF direct loans receivable, which had original amounts of \$19,252,588, have interest rates of 1.43% to 5.17% and have maturity dates of 2010 to 2022. The WPCRF leveraged loans receivable which had original amounts of \$489,037,863, have interest rates of 3.21% to 5.20% and have scheduled final maturity dates of 2007 to 2025.

The Drinking Water Fund direct loans receivable, which had original amounts of \$16,770,695, have interest rates of 4.0% to 4.5% and have scheduled final maturity dates of 2005 to 2024. The Drinking Water Fund leveraged loans receivable, which had original amounts of \$186,857,963, have interest rates of 3.03% to 4.6% and have scheduled final maturity dates of 2014 to 2024.

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(5) Noncurrent Liabilities

Bonds Payable

The following is an analysis of changes in bonds payable for the year ended December 31, 2003:

	<u>Balance January 1, 2003</u>	<u>New issues</u>	<u>Retirements</u>	<u>Balance December 31, 2003</u>
Water Operations				
Small Water Resources Program				
1992 Series B	\$ 1,155,000	—	150,000	1,005,000
1993 Series A	5,845,000	—	625,000	5,220,000
1994 Series A	4,015,000	—	280,000	3,735,000
1994 Series B	605,000	—	295,000	310,000
1996 Series A/B	5,345,000	—	375,000	4,970,000
1997 Series A	8,040,000	—	385,000	7,655,000
1997 Series B	11,460,000	—	975,000	10,485,000
1998 Series A	7,175,000	—	450,000	6,725,000
1998 Series B	13,410,000	—	810,000	12,600,000
2000 Series A	23,595,000	—	305,000	23,290,000
2001 Series A	15,245,000	—	275,000	14,970,000
2002 Series A	14,615,000	—	160,000	14,455,000
2003 Series A	—	9,610,000	—	9,610,000
	<u>110,505,000</u>	<u>9,610,000</u>	<u>5,085,000</u>	<u>115,030,000</u>
Water Revenue Bonds Program:				
1998 Taxable Series	2,535,000	—	160,000	2,375,000
2003 Series A	—	13,800,000	—	13,800,000
2003 Series B	—	3,960,000	—	3,960,000
	<u>2,535,000</u>	<u>17,760,000</u>	<u>160,000</u>	<u>20,135,000</u>
Total Water Operations	113,040,000	\$ <u>27,370,000</u>	<u>5,245,000</u>	135,165,000
Less deferred costs	(1,431,667)			(1,086,667)
Less current portion	<u>(5,245,000)</u>			<u>(6,690,000)</u>
Noncurrent bonds payable – Water Operations	\$ <u>106,363,333</u>			<u>127,388,333</u>
Water Pollution Control Revolving Fund – Clean Water Revenue Bonds:				
1989 Series A	\$ 630,000	—	110,000	520,000
1990 Series A	285,000	—	60,000	225,000
1991 Series A	2,530,000	—	400,000	2,130,000
1991 Series B	1,930,000	—	350,000	1,580,000
1992 Series A	915,000	—	130,000	785,000
1992 Series B	2,505,000	—	335,000	2,170,000
1994 Series A	2,600,000	—	1,330,000	1,270,000
1995 Series A	3,750,000	—	1,130,000	2,620,000
1996 Series A	5,255,000	—	315,000	4,940,000
1997 Series A	25,240,000	—	1,480,000	23,760,000
1998 Series A	26,105,000	—	1,475,000	24,630,000
1998 Series B	18,835,000	—	575,000	18,260,000
1999 Series A	31,135,000	—	1,915,000	29,220,000
2000 Series A	31,025,000	—	1,290,000	29,735,000
2001 Series A	67,305,000	—	2,470,000	64,835,000
2002 Series A	55,310,000	—	1,755,000	53,555,000
2002 Series B	23,435,000	—	445,000	22,990,000
2003 Series A	—	14,750,000	—	14,750,000
	<u>298,790,000</u>	<u>14,750,000</u>	<u>15,565,000</u>	<u>297,975,000</u>

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	Balance January 1, 2003	New issues	Retirements	Balance December 31, 2003
Water Pollution Control Revolving Fund – Wastewater Revolving Fund Refunding Revenue Bonds:				
1996 Series A	\$ 25,860,000	—	1,945,000	23,915,000
2001 Series A	51,415,000	—	1,755,000	49,660,000
	<u>77,275,000</u>	<u>—</u>	<u>3,700,000</u>	<u>73,575,000</u>
Total Water Pollution Control Revolving Fund	376,065,000	\$ <u>14,750,000</u>	<u>19,265,000</u>	371,550,000
Less deferred costs	(609,002)			(509,438)
Less current portion	<u>(19,265,000)</u>			<u>(20,450,000)</u>
Noncurrent bonds payable – Water Pollution Control Revolving Fund	\$ <u>356,190,998</u>			<u>350,590,562</u>
Drinking Water Revolving Fund:				
Revenue Bonds:				
1997 Series A	\$ 20,055,000	—	1,055,000	19,000,000
1998 Series A	13,295,000	—	640,000	12,655,000
1999 Series A	40,590,000	—	2,200,000	38,390,000
2000 Series A	34,045,000	—	1,265,000	32,780,000
2002 Series A	16,320,000	—	185,000	16,135,000
2003 Series A	—	20,835,000	—	20,835,000
2003 Series B	—	11,695,000	—	11,695,000
Total Drinking Water Revolving Fund	124,305,000	\$ <u>32,530,000</u>	<u>5,345,000</u>	151,490,000
Less current portion	<u>(5,345,000)</u>			<u>(6,300,000)</u>
Noncurrent bonds payable – Drinking Water Revolving Fund	\$ <u>118,960,000</u>			<u>145,190,000</u>

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The following is an analysis of changes in bonds payable for the year ended December 31, 2002:

	Balance January 1, 2002	New issues	Retirements	Balance December 31, 2002
Water Operations – Small Water Resources Program:				
1990 Series A	\$ 590,000	—	590,000	—
1992 Series A	595,000	—	595,000	—
1992 Series B	1,940,000	—	785,000	1,155,000
1993 Series A	5,945,000	—	100,000	5,845,000
1994 Series A	4,280,000	—	265,000	4,015,000
1994 Series B	890,000	—	285,000	605,000
1996 Series A/B	5,705,000	—	360,000	5,345,000
1997 Series A	8,405,000	—	365,000	8,040,000
1997 Series B	11,810,000	—	350,000	11,460,000
1998 Series A	7,605,000	—	430,000	7,175,000
1998 Series B	13,535,000	—	125,000	13,410,000
2000 Series A	23,860,000	—	265,000	23,595,000
2001 Series A	15,510,000	—	265,000	15,245,000
2002 Series A	—	14,615,000	—	14,615,000
	100,670,000	14,615,000	4,780,000	110,505,000
Water Revenue Bonds Program:				
1998 Taxable Series	2,685,000	—	150,000	2,535,000
Total Water Operations	103,355,000	\$ 14,615,000	4,930,000	113,040,000
Less deferred costs	(1,806,667)			(1,431,667)
Less current portion	(4,930,000)			(5,245,000)
Noncurrent bonds payable – Water Operations	\$ 96,618,333			106,363,333
Water Pollution Control Revolving Fund – Clean Water Revenue Bonds:				
1989 Series A	\$ 745,000	—	115,000	630,000
1990 Series A	350,000	—	65,000	285,000
1991 Series A	2,945,000	—	415,000	2,530,000
1991 Series B	2,300,000	—	370,000	1,930,000
1992 Series A	1,620,000	—	705,000	915,000
1992 Series B	3,705,000	—	1,200,000	2,505,000
1994 Series A	3,885,000	—	1,285,000	2,600,000
1995 Series A	4,850,000	—	1,100,000	3,750,000
1996 Series A	5,560,000	—	305,000	5,255,000
1997 Series A	26,680,000	—	1,440,000	25,240,000
1998 Series A	27,550,000	—	1,445,000	26,105,000
1998 Series B	19,365,000	—	530,000	18,835,000
1999 Series A	33,000,000	—	1,865,000	31,135,000
2000 Series A	32,270,000	—	1,245,000	31,025,000
2001 Series A	69,710,000	—	2,405,000	67,305,000
2002 Series A	—	55,310,000	—	55,310,000
2002 Series B	—	23,435,000	—	23,435,000
	234,535,000	78,745,000	14,490,000	298,790,000

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	Balance January 1, 2002	New issues	Retirements	Balance December 31, 2002
Water Pollution Control				
Revolving Fund – Wastewater				
Revolving Fund Refunding				
Revenue Bonds:				
1996 Series A	\$ 27,670,000	—	1,810,000	25,860,000
2001 Series A	51,620,000	—	205,000	51,415,000
	79,290,000	—	2,015,000	77,275,000
Total Water Pollution Control Revolving Fund	313,825,000	\$ 78,745,000	16,505,000	376,065,000
Less deferred costs	(713,338)			(609,002)
Less current portion	(16,505,000)			(19,265,000)
Noncurrent bonds payable – Water Pollution Control Revolving Fund	\$ 296,606,662			356,190,998
Drinking Water Revolving Fund:				
Revenue Bonds:				
1997 Series A	\$ 21,085,000	—	1,030,000	20,055,000
1998 Series A	13,925,000	—	630,000	13,295,000
1999 Series A	42,725,000	—	2,135,000	40,590,000
2000 Series A	35,090,000	—	1,045,000	34,045,000
2002 Series A	—	16,320,000	—	16,320,000
Total Drinking Water Revolving Fund	112,825,000	\$ 16,320,000	4,840,000	124,305,000
Less current portion	(4,840,000)			(5,345,000)
Noncurrent bonds payable – Drinking Water Revolving Fund	\$ 107,985,000			118,960,000

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All of the Authority Small Water Resources Program bonds and the Series 1989A and Series 1990A Clean Water Revenue Bonds are insured as to payment of principal and interest by the Financial Guaranty Insurance Company. The Clean Water Revenue Bonds, Series 1992A are insured as to payment of principal and interest by Financial Security Assurance, Inc. The Wastewater Revolving Fund Refunding Revenue Bonds, Series 1996A are insured as to payment of principal and interest by AMBAC Indemnity Corporation.

The outstanding bonds of the Authority had original principal amounts of \$140,635,000 for the Small Water Resources Program, \$20,900,000 for the Water Revenue Bonds Program, \$464,735,000 for the Clean Water Revenue Bonds, \$80,570,000 for the Wastewater Revolving Fund Refunding Revenue Bonds and \$171,115,000 for the Drinking Water Revolving Fund Bonds, for a total of \$877,955,000. The bonds are payable semiannually with interest rates ranging from 1.7% to 7.4% and serial and term principal maturities, including mandatory sinking fund call provisions, through the year 2025. All bonds, except the Small Water Resources Series 1996B and the Wastewater Revolving Fund Refunding Revenue Bonds Series 1996A and 2001A, have optional initial call provisions through 2015, generally eight to ten years from the issue date with maximum call premiums of 2% and decreasing to no premium.

The Authority's debt service requirements to maturity, excluding unamortized original issue discount and premium and deferred costs on refundings, are as follows:

	Water operations fund		WPCRF		DWRF		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2004	\$ 6,690,000	6,329,903	20,450,000	18,884,700	6,300,000	7,016,078	65,670,681
2005	7,010,000	6,044,118	21,070,000	17,934,343	6,380,000	6,842,146	65,280,607
2006	7,445,000	5,752,924	22,105,000	16,954,299	6,625,000	6,559,396	65,441,619
2007	7,760,000	5,442,028	22,775,000	15,869,328	7,290,000	6,279,629	65,415,985
2008	8,165,000	5,107,285	23,505,000	14,770,814	7,455,000	5,972,676	64,975,775
2009-2013	36,060,000	20,235,803	120,115,000	55,128,025	43,710,000	24,437,266	299,686,094
2014-2018	30,370,000	12,351,842	88,325,000	26,374,491	45,895,000	13,538,539	216,854,872
2019-2023	30,765,000	4,366,068	46,215,000	7,206,830	25,870,000	3,777,770	118,200,668
2024-2025	900,000	37,125	6,990,000	462,288	1,965,000	127,844	10,482,257
Total	\$ 135,165,000	65,667,096	371,550,000	173,585,118	151,490,000	74,551,344	972,008,558

Total interest expense for 2003 and 2002 amounted to \$6,362,280, \$19,353,391, and \$6,485,194 and \$5,927,012, \$17,902,940, and \$6,059,369 for the Water Operations, Water Pollution Control, and Drinking Water Funds, respectively.

The bond resolutions authorizing the various bond issues contain general provisions and provisions related to accounting and financial operations of the Authority. Management of the Authority believes they are in substantial compliance with these provisions.

The Authority has provided a Debt Service Bond Reserve Account at least equal to the debt service reserve requirement under the Small Water Resources Bond Resolution. At December 31, 2003 and 2002, the Small Water Resources Debt Service Reserve Account amounted to \$8,500,000 and was fully funded. This

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amount is reflected in restricted net assets of the Water Operations Enterprise Fund. The Authority can issue up to \$150,000,000 (excluding refunding bonds) of outstanding Small Water Resources Revenue Bonds at the current funding level for the Small Water Debt Service Reserve Account. At December 31, 2003 and 2002, the Authority had \$115,030,000 and \$110,505,000 of outstanding Small Water Resources Revenue Bonds, respectively.

Refunded Debt

Various bonds previously issued by the Authority have been defeased, and thus, are not reflected in bonds payable in the accompanying statements of net assets. The detail of the Authority's total defeased bonds outstanding at December 31, 2003 and year of final maturity of the defeased bonds (if called) are as follows:

	<u>Amount</u>	<u>Year of maturity</u>
1994B Small Water Resources Revenue Bonds	\$ 4,885,000	2004
1999A Clean Water Revenue Bonds	2,365,000	2009
	<u>\$ 7,250,000</u>	

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Noncurrent Liabilities, Other than Bonds

Noncurrent liability activity, other than bonds, for the year ended December 31, 2003 was as follows:

	<u>Balance January 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2003</u>	<u>Current Portion</u>
Water Operations:					
Project costs payable – leveraged loans	\$ 11,704,856	27,258,150	23,957,012	15,005,994	15,005,994
Deferred revenue	41,207	—	14,128	27,079	—
Debt service reserve deposit	600,000	—	—	600,000	—
Other liabilities	547,775	4,784	168,824	383,735	—
Total Water Operations	<u>\$ 12,893,838</u>	<u>27,262,934</u>	<u>24,139,964</u>	<u>16,016,808</u>	<u>15,005,994</u>
Water Pollution Control:					
Project costs payable – direct loans	\$ 1,055,360	1,550,000	2,076,973	528,387	528,387
Project costs payable – leveraged loans	134,234,465	15,888,307	81,621,163	68,501,609	68,101,609
Advance payable	11,307,347	1,428,434	3,200,000	9,535,781	—
Deferred revenue	293,188	—	22,553	270,635	—
Other liabilities	4,481,160	920,297	1,248,608	4,152,849	—
Total Water Pollution Control	<u>\$ 151,371,520</u>	<u>19,787,038</u>	<u>88,169,297</u>	<u>82,989,261</u>	<u>68,629,996</u>
Drinking Water:					
Project costs payable – direct loans	\$ 2,737,492	3,181,198	2,904,476	3,014,214	3,014,214
Project costs payable – leveraged loans	14,298,605	35,829,500	11,448,638	38,679,467	36,541,467
Other liabilities	2,034,413	389,388	277,030	2,146,771	—
Total Drinking Water	<u>\$ 19,070,510</u>	<u>39,400,086</u>	<u>14,630,144</u>	<u>43,840,452</u>	<u>39,555,681</u>

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Noncurrent liability activity, other than bonds, for the year ended December 31, 2002 was as follows:

	<u>Balance January 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2002</u>	<u>Current Portion</u>
Water Operations:					
Project costs payable – leveraged loans	\$ 21,857,893	14,500,000	24,653,037	11,704,856	9,660,938
Deferred revenue	—	41,207	—	41,207	—
Debt service reserve deposit	600,000	—	—	600,000	—
Other liabilities	532,278	44,792	29,295	547,775	—
Total Water Operations	<u>\$ 22,990,171</u>	<u>14,585,999</u>	<u>24,682,332</u>	<u>12,893,838</u>	<u>9,660,938</u>
Water Pollution Control:					
Project costs payable – direct loans	\$ 898,887	1,000,000	843,527	1,055,360	924,659
Project costs payable – leveraged loans	99,266,209	84,019,775	49,051,519	134,234,465	80,476,909
Advance payable	12,229,648	3,227,699	4,150,000	11,307,347	—
Deferred revenue	315,741	—	22,553	293,188	—
Other liabilities	4,313,061	1,250,284	1,082,186	4,481,160	—
Total Water Pollution Control	<u>\$ 117,023,546</u>	<u>89,497,758</u>	<u>55,149,785</u>	<u>151,371,520</u>	<u>81,401,568</u>
Drinking Water:					
Project costs payable – direct loans	\$ 876,003	4,200,000	2,338,511	2,737,492	2,523,871
Project costs payable – leveraged loans	13,548,452	17,440,000	16,689,847	14,298,605	6,739,260
Other liabilities	2,454,945	301,812	722,343	2,034,413	—
Total Drinking Water	<u>\$ 16,879,400</u>	<u>21,941,812</u>	<u>19,750,701</u>	<u>19,070,510</u>	<u>9,263,131</u>

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(6) Board Designated Accounts

Included in the balance of unrestricted net assets of the Water Operations Enterprise Fund are monies designated by the Authority's board of directors (the Board) for specific purposes. These amounts are not included in restricted net assets, because the designations do not meet the definition of restricted net assets as defined by accounting principles generally accepted in the United States of America. Board designations were as follows in the Water Operations Enterprise Fund as of December 31:

	<u>2003</u>	<u>2002</u>
Self insurance account	\$ 800,000	800,000
La Plata river escrow account	<u>15,902,406</u>	<u>15,455,643</u>
Total Board designated accounts	<u>\$ 16,702,406</u>	<u>16,255,643</u>

(7) EPA Capitalization Grants

The WPCRF and DWRF are capitalized through capitalization grants awarded by the EPA. Matching funds are provided by the Authority or its borrowers in a ratio of \$1 of state match for every \$5 of capitalization grants.

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The following table details the EPA capitalization grants and matching requirements recognized by project during 2003:

	Federal grants recognized in 2003	Matching requirement for 2003
	<u> </u>	<u> </u>
Water Pollution Control Revolving Fund Projects:		
1995A – Winter Park Water and Sanitation District	\$ 14,840	2,968
1997A – Town of Carbondale	22,442	4,488
1999A – City of Aurora	1,865,173	373,035
1999A – Grand County Water and Sanitation District	487,126	97,425
2000A – Parker Water and Sanitation District	769,244	153,849
2000A – Three Lakes Water and Sanitation District	8,734	1,747
2001A – City of Lafayette	554,858	110,972
2001A – Mt. Crested Butte Water and Sanitation District	828,242	165,648
2001A – Parker Water and Sanitation District	1,667,120	333,424
2001A – City of Steamboat Springs	66,718	13,344
2002A – Black Hawk-Central City Sanitation District	1,789,588	357,918
2002A – Town of Wellington	1,438,961	287,792
2002A – Winter Park West Water and Sanitation District	382,640	76,528
2002B – Parker Water and Sanitation District	4,440,896	888,179
2003A – Colorado City	9,136	1,827
2003A – Town of Milliken	183,556	36,711
2003A – City of Pueblo	321,729	64,346
	<u>14,851,003</u>	<u>2,970,201</u>
Drinking Water Revolving Fund Projects:		
1998A – Town of Buena Vista	13,145	2,629
1999A – Grand County Water and Sanitation District No. 1	158,887	31,777
1999A – Left Hand Water District	389,751	77,950
2002A – City of Grand Junction	529,705	105,941
2002A – City of La Junta	1,137,140	227,428
2003A – Fountain Valley Authority	849,106	169,821
2003A – City of Longmont	1,080,824	216,165
2003A – Town of Lyons	83,288	16,658
	<u>4,241,846</u>	<u>848,369</u>
Total	<u>\$ 19,092,849</u>	<u>3,818,570</u>

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The following table details the EPA capitalization grants and matching requirements recognized by project during 2002:

	Federal grants recognized in 2002	Matching requirement for 2002
Water Pollution Control Revolving Fund Projects:		
1995A – City of Steamboat Springs	\$ 17,186	3,437
1996A – City of Idaho Springs	19,761	3,952
1999A – Fremont Sanitation District	52,274	10,455
1999A – City of Aurora	2,083,621	416,724
1999A – Grand County Water and Sanitation District	444,831	88,966
1999A – Left Hand Water and Sanitation District	8,828	1,766
2000A – Summit County	707,484	141,497
2000A – Parker Water and Sanitation District	2,196,753	439,351
2000A – Three Lakes Water and Sanitation District	888,181	177,636
2001A – City of Steamboat Springs	66,876	13,375
2001A – City of Lafayette	1,704,503	340,901
2001A – Mt. Crested Butte Water and Sanitation District	1,054,661	210,932
2002A – Black Hawk-Central City Sanitation District	390,592	78,118
2002A – Town of Wellington	417,442	83,488
2002A – Winter Park West Water and Sanitation District	349,416	69,883
	10,402,409	2,080,481
Drinking Water Revolving Fund Projects:		
1998A – Town of Buena Vista	1,454	291
1999A – City of Glenwood Springs	47	9
1999A – Grand County Water and Sanitation District No. 1	63,964	12,793
1999A – City of Greeley	218,297	43,659
1999A – Left Hand Water District	95,085	19,017
2000DL – Sedalia Water and Sanitation District	24,542	4,908
2000A – Evergreen Metro District	673,678	134,736
2000A – Board of Waterworks Pueblo	80,524	16,105
2000A – Town of Limon	127,552	25,510
2000A – City of Westminster	2,220,881	444,176
2000DL – Town of Wellington	534,910	106,982
2002A – Evergreen Metropolitan District	764,260	152,852
2002A – City of Idaho Springs	906,316	181,263
2002A – City of La Junta	550,096	110,019
2002DL – City of Woodland Park	559,915	111,983
	6,821,521	1,364,303
Total	\$ 17,223,930	3,444,784

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(8) Defined Benefit Pension Plan

The Authority contributes to the Combined State and School Division Trust Fund (CSSDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The CSSDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees and board members of the Authority are members of the CSSDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the CSSDTF. That report may be obtained by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

The financial statements of the CSSDTF are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues in the period in which the employer pays compensation to the member. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The CSSDTF plan investments are presented at fair value except for short-term investments, which are recorded at cost, which approximates fair value.

Plan members and the Authority are required to contribute to the CSSDTF at a rate set by statute. The contribution requirements of plan members and the Authority are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0% of covered salary (see below table for the Authority's contribution rates). Beginning with payroll periods ending after January 1, 2001, the employer contributions paid to the CSSDTF were reduced by an employer match on members' voluntary contributions to a defined contribution plan. The match, set by the board of trustees of PERA, is 100% of a member's eligible tax-deferred retirement program contributions limited by a per payroll whole percentage of PERA-includable salary limit (see below table for matchmaker rates). Any unused defined contribution match money is forwarded to the CSSDTF. Also, a portion of the Authority's contribution (1.64% of covered salary) is allocated for the Health Care Trust Fund (see note 9). The Authority's contributions to CSSDTF for the years ended December 31, 2003, 2002, and 2001 were \$75,727, \$64,688, and \$61,342, respectively, equal to their required contributions for each year.

Contribution rates from July 1, 2001 to June 30, 2004 are the following:

PERA employer rates		Matchmaker rates	
7/1/01-6/30/02	9.90%	2001	3%
7/1/02-6/30/03	10.04%	2002	3%
7/1/03-6/30/04	10.15%	2003	2%

(9) Postemployment Healthcare Benefits

The Authority contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and

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required supplementary information for the HCTF. That report may be obtained by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

The financial statements of the HCTF are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues in the period in which the employer pays compensation to the member. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The HCTF plan investments are presented at fair value except for short-term investments, which are recorded at cost, which approximates fair value.

The Authority is required to contribute at a rate of 1.64% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Authority are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. The Authority's contributions to HCTF for the years ended December 31, 2003, 2002, and 2001 were \$12,307, \$10,639, and \$9,841, respectively, equal to their required contributions for each year.

(10) Defined Contribution Pension Plan

The (CSSDTF) members (see note 8) of the Authority may voluntarily contribute to the Voluntary Investment Program (401(k) Plan), an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the 401(k) Plan provisions to the State Legislature.

The 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS (\$12,000 in 2003 and up to an additional \$2,000 for participants over age 50). Beginning January 1, 2001, an employer match was legislated which would match 100% of a member's eligible tax-deferred retirement program contributions limited by 2% in 2003 per payroll of the PERA-includable salary. The contribution requirements for the Authority are established under Title 24, Article 51, Section 1402 of the CRS, as amended. The 401(k) Plan member contributions from the Authority for the years ended December 31, 2003 and 2002 were \$53,771 and \$44,262, respectively. The employer contributions to the 401(k) Plan from the Authority for the years ended December 31, 2003 and 2002 were \$13,520 and \$18,084, respectively.

(11) Lease Commitment

The Authority leases office facilities under an operating lease that expires in 2005. Rent expense totaled \$108,661 and \$121,398 for 2003 and 2002, respectively. The future minimum annual rental commitment under this lease is \$109,492 and \$100,368 for 2004 and 2005, respectively. Pursuant to the lease agreement executed in 2002, the landlord made a \$42,384 payment to the Authority in lieu of providing tenant finish improvements. The payment is being amortized over the 36-month lease term and accordingly, reduces rent expense.

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(12) Tax, Spending, and Debt Limitations

In November 1992, the voters of Colorado approved Amendment 1, referred to as the Taxpayer's Bill of Rights (TABOR), which added a new section 20 to article X of the Colorado Constitution. TABOR contains tax, spending, revenue, and debt limitations which apply to the State of Colorado and all local governmental agencies.

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 governmental agencies combined, are excluded from the provisions of TABOR. The Authority's management believes that its operations qualify for this exclusion. However, TABOR is complex and subject to interpretation. Many of the provisions, including the qualification as an Enterprise, may require judicial interpretation.

(13) Risk Management and Contingencies

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The Authority maintains commercial insurance for most risks of loss, excluding directors' and officers' legal liability for which the Authority is self-insured. No claims have been made against commercial insurance coverage or the Authority in any of the past three fiscal years.

The Authority receives federal grant funds from the EPA. These amounts are subject to audit and adjustment by the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of expenses which may be disallowed by the federal government cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial to its financial operations.