

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
COLORADO RIVER COMMISSION
OF NEVADA**

A component unit of the State of Nevada

Las Vegas, Nevada

**For the
FISCAL YEAR ENDED JUNE 30, 2003**

*Prepared by the Finance and Administration Division
under the supervision of
Douglas N. Beatty, Division Chief*

STATE OF NEVADA

KENNY C. GUINN

Governor

BRIAN SANDOVAL

Attorney General

KATHY AUGUSTINE

Controller

BRIAN K. KROLICKI

Treasurer

DEAN HELLER

Secretary of State

COLORADO RIVER COMMISSION

RICHARD W. BUNKER

Chairman

JAY D. BINGHAM

Vice Chairman

SHARI BUCK

Commissioner

LAMOND R. MILLS

Commissioner

OSCAR B. GOODMAN

Commissioner

ROLAND D. WESTERGARD

Commissioner

MYRNA WILLIAMS

Commissioner

COMMISSION STAFF

GEORGE M. CAAN

Executive Director

GAIL A. BATES

Deputy Director

JAMES H. DAVENPORT

Division Chief Water

DOUGLAS N. BEATTY

Division Chief Finance and Administration

**TABLE OF CONTENTS
 COLORADO RIVER COMMISSION
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED JUNE 30, 2003**

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| <i>INTRODUCTORY SECTION</i> | |
| Title page | I |
| List of elected and appointed officials | II |
| Letter of transmittal | V |
| GFOA Certificate of Achievement | X |
| Organization chart | XI |
| <i>FINANCIAL SECTION</i> | |
| Independent auditors' report on financial statements and supplemental information | 3 |
| Management's discussion and analysis | 7 |
| Basic financial statements: | |
| Government-wide financial statements: | |
| Statement of net assets | 17 |
| Statement of activities | 18 |
| Fund financial statements: | |
| Balance sheet – governmental funds | 19 |
| Statement of revenues, expenditures, and changes in fund balances – governmental funds | 20 |
| Reconciliation of the statement of revenues, expenditures and changes in fund balance of governmental funds to the statement of activities | 20 |
| Statement of revenues, expenditures, and changes in fund balances – budget and actual – general fund | 21 |
| Balance sheet – proprietary funds | 22 |
| Statement of revenues, expenses, and changes in fund net assets – proprietary funds | 24 |

**TABLE OF CONTENTS
 COLORADO RIVER COMMISSION
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED JUNE 30, 2003**

TABLE OF CONTENTS (continued)

FINANCIAL SECTION (continued)

| | |
|---|----|
| Basic financial statements (continued): | |
| Statement of cash flows – proprietary funds | 25 |
| Notes to financial statements | 29 |
| Combining and individual fund statements and schedules: | |
| Combining balance sheet – nonmajor governmental funds | 45 |
| Combining statement of revenues, expenditures changes in fund balances – nonmajor governmental funds | 46 |
| Schedule of revenues, expenditures, and changes in fund balances – budget and actual: | |
| Fort Mohave development special revenue fund | 47 |
| Research and development special revenue fund | 48 |
| Capital assets used in the operation of governmental funds: | |
| Comparative schedules by source | 47 |
| Schedule of changes by function and activity | 48 |

STATISTICAL SECTION

| | |
|--|----|
| Government-wide expenditures by function – last ten fiscal years | 53 |
| Government-wide revenues – last ten fiscal years | 54 |
| Governmental revenues by source | 55 |

ADDITIONAL REPORT OF INDEPENDENT AUDITORS

| | |
|---|----|
| Independent auditors' report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> | 59 |
|---|----|

KENNY C. GUINN, *Governor*
RICHARD W. BUNKER, *Chairman*
JAY D. BINGHAM, *Vice Chairman*
GEORGE M. CAAN, *Executive Director*

STATE OF NEVADA



SHARI BUCK, *Commissioner*
OSCAR B. GOODMAN, *Commissioner*
LAMOND R. MILLS, *Commissioner*
ROLAND D. WESTERGARD, *Commissioner*
MYRNA WILLIAMS, *Commissioner*

**COLORADO RIVER COMMISSION
OF NEVADA**

December 10, 2003

**Honorable Chairman and
Members of the
Colorado River Commission of Nevada**

It is a pleasure for us to present the Comprehensive Annual Financial Report of the Colorado River Commission (the Commission) for the year ended June 30, 2003, prepared by the financial and administrative division staff. The Commission is responsible for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. We believe the data is accurate in all material aspects; that it is displayed in a manner designed to fairly present the financial position and results of operations, as measured by the financial activity of all Commission funds; and that all disclosures necessary for understanding of the Commission's financial affairs have been included. All funds and accounts utilized in recording the Commission's operations and financial position are included in this report.

Piercy Bowler Taylor and Kern, Certified Public Accountants audited the Commission's fiscal 2003 financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Commission are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Commission's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditors' report is presented in the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Commission's MD&A is presented in the financial section of this report.

This report is presented in three sections: introductory, financial and statistical. The introductory section includes this transmittal letter and other such material as may be useful in understanding the Commission. The financial section includes the auditors' report and the financial statements, which present fairly the financial position, results of operations, and cash flows for the fiscal year. Also included is an auditors' bond compliance letter, budget comparisons, and other information necessary for presentation purposes. The statistical section includes selected financial information, generally presented on a multi-year basis.

THE COMMISSION

The Colorado River Commission has broad statutory authority to establish policy for the management of Nevada's allocation of power and water resources from the Colorado River and development of designated land in southern Nevada. As a state agency, it comprises a discrete component unit of the State of Nevada (the State) for financial reporting purposes. Information presented herein is included in the State's comprehensive annual financial report.

The Commission is governed by seven commissioners four of whom, including the chairman, are appointed by the Governor, with the remaining three appointed by the Southern Nevada Water Authority. Commissioners are required to have a general knowledge of the development of the Colorado River and its tributaries within Nevada, as well as the rights of Nevada pertaining to the resources and benefits of the Colorado River. The members of the Colorado River Commission are:

| Name | Initial Appointment | Current Term |
|--|---------------------|--------------------|
| Richard W. Bunker, Chairman | 1993 | 7/01/01 – 6/30/04 |
| Jay D. Bingham, Vice Chairman | 1997 | 7/1/03 – 6/30/06 |
| Honorable Shari Buck, North Las Vegas Councilwoman | 2000 | 7/1/02 – 6/30/03 * |
| Honorable Oscar B. Goodman, Las Vegas Mayor | 2003 | 7/1/03 – 6/30/04 * |
| Lamond R. Mills | 1996 | 7/1/02 – 6/30/05 |
| Roland D. Westergard | 1996 | 7/1/02 – 6/30/05 |
| Honorable Myrna Williams, Clark County Commissioner | 1999 | 7/1/02 – 6/30/03 * |

* Designates those commissioners appointed by the SNWA who have terms that are subject to annual reappointment and continuation of their service as directors of SNWA

The Commission is responsible for the acquisition, management, utilization and development of designated water, electric power and land resources of the state. It is empowered to receive, protect, safeguard and hold in trust all rights, interests and benefits in and to the waters of the Colorado River and such power generated thereon to which Nevada is entitled. The Commission may make compacts or contracts and cooperate with other entities, states, and the federal government in fulfilling its statutory responsibilities. The Commission's main office is located in Las Vegas, Nevada.

Activities of the Commission are funded from revenue received from power and water contractors. An administrative charge is included in power sales to provide funding for power related activities. Water administrative cost reimbursements are received from the Southern Nevada Water Authority. Interest income earned from investments by the State Treasurer contributes to revenues. The Commission does not request or receive any state tax allocations or federal funds to support its administrative and operating functions.

Power. Nevada's allocation of hydropower from Hoover, Parker and Davis Dams, the Colorado River Storage Project, and the Salt Lake Area Integrated Project is purchased by the Commission from the federal government and sold to several contracting entities in southern Nevada including three rural electrification associations, one municipal and one investor-owned utility and an industrial complex in Henderson, Nevada. The Commission also seeks and contracts for available capacity and energy from alternative sources in order to meet the needs of the entities it serves. The Commission is also responsible for developing power delivery facilities and providing power, including hydropower to the new water treatment facilities being constructed by the Southern Nevada Water Authority.

Water. The Colorado River Commission represents Nevada's interests on all state and interstate matters dealing with the management, operations and administration of the water resources of the Colorado River. The Commission works directly with the U.S. Bureau of Reclamation, representing the Secretary of the Interior as the water master of the Colorado River; the other six Colorado River Basin states consisting of Arizona, California, Colorado, New Mexico, Utah and Wyoming; and the Southern Nevada Water Authority and other water users in southern Nevada. Negotiating new water supplies, identifying new operating strategies, which balance water use with water supply, and developing new mechanisms for interstate water transfers continue to be the principal focus of the Commission.

Land. As a result of special legislation passed by Congress and the State of Nevada, the Commission purchased approximately 15,000 acres in the Fort Mohave Valley (at the southern tip of the state) from the federal government. About 4,000 acres have been sold to various entities, leaving approximately 9,000 acres available for development, depending upon the availability of water.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is best understood when it is considered from the broader perspective of the environment within which the Commission provides service.

Clark County. The area served by the Commission, principally the Clark County area, continues to grow at a steady rate. The county is comprised of 7,927 square miles, an area larger than the entire state of New Jersey. It includes five incorporated cities: Las Vegas, Henderson, North Las Vegas, Boulder City, and Mesquite; fourteen unincorporated towns; one school district; four library districts; one urban and two rural fire districts; one sanitation district; one urban and three rural water districts; and eleven judicial townships. The County has a current estimated population of 1,549,697, which represents approximately 70% of the total state population (estimated to be approximately 2,206,022). Current projections place the county population at 1,827,770 in 2010 and 2,276,021 in 2020.

New Business. The State Legislature approved Senate Bill 211 authorizing the Commission to serve the additional electric power requirements of the water and wastewater member agencies of the SNWA. To date, the Commission has been exploring the economic incentives to these organizations to move their loads to CRC service and attempting to accomplish all of the necessary groundwork for the addition of those loads. Because of the current state of the electric utility industry, and the challenges associated with physical restraints of the transmission system in Southern Nevada, this process is moving slower than the Commission would like. However, we are committed to serving all of the eligible customers where the economics of the transactions bring the greatest benefit to the citizens of Nevada.

Cash Management. Cash in all funds is deposited in the State Treasurer's account. Interest income is received from the State Treasurer on all Commission cash. The Commission has no direct control over the investing activities of these resources. Interest income and cash balances have been adjusted for unrealized losses on investments.

Risk Management. The Commission, as an agency of the State, participates in the State's risk management program. The State of Nevada self-insures against certain property and liability claims. The State's risk management division manages a self-insurance fund for group health insurance, and an insurance premium fund to provide fidelity insurance, property insurance and worker's compensation. The Commission pays its fair share of the activities of the program as prescribed by the State. The State's comprehensive annual financial report provides more information relative to risk management activities.

Pension benefits. The Nevada Public Employee Retirement System (PERS) is a cost-sharing multiple employer defined benefit plan covering essentially all of the employees of state and local Nevada governments. Employees of the Commission are eligible to

participate upon employment. Note 12 in the notes to financial statements discusses the plan specifics. In addition to providing pension benefits, the Commission provides certain health care benefits for retired employees. All of the Commission's employees may become eligible if they reach normal retirement age while working for the Commission.

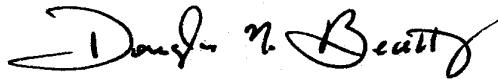
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of achievement for excellence in financial reporting to the Commission for its financial report for the fiscal year ended June 30, 2002. The certificate of achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a certificate of achievement, a governmental unit must publish an easily readable and efficiently organized financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

This is the twenty-sixth consecutive year the Commission has received this recognition. A certificate of achievement is valid for a period of one year only. We believe this current report continues to conform to certificate of achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements. The preparation of this report could not have been accomplished without the services of the entire staff of the Commission. We would like to express our appreciation to all members of the staff. We would also like to express our thanks to the Commission members for their interest and support in planning and conducting the financial affairs in a responsible and professional manner.



George M. Caan
Executive Director



Douglas N. Beatty
Division Chief, Finance & Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Colorado River Commission of Nevada

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



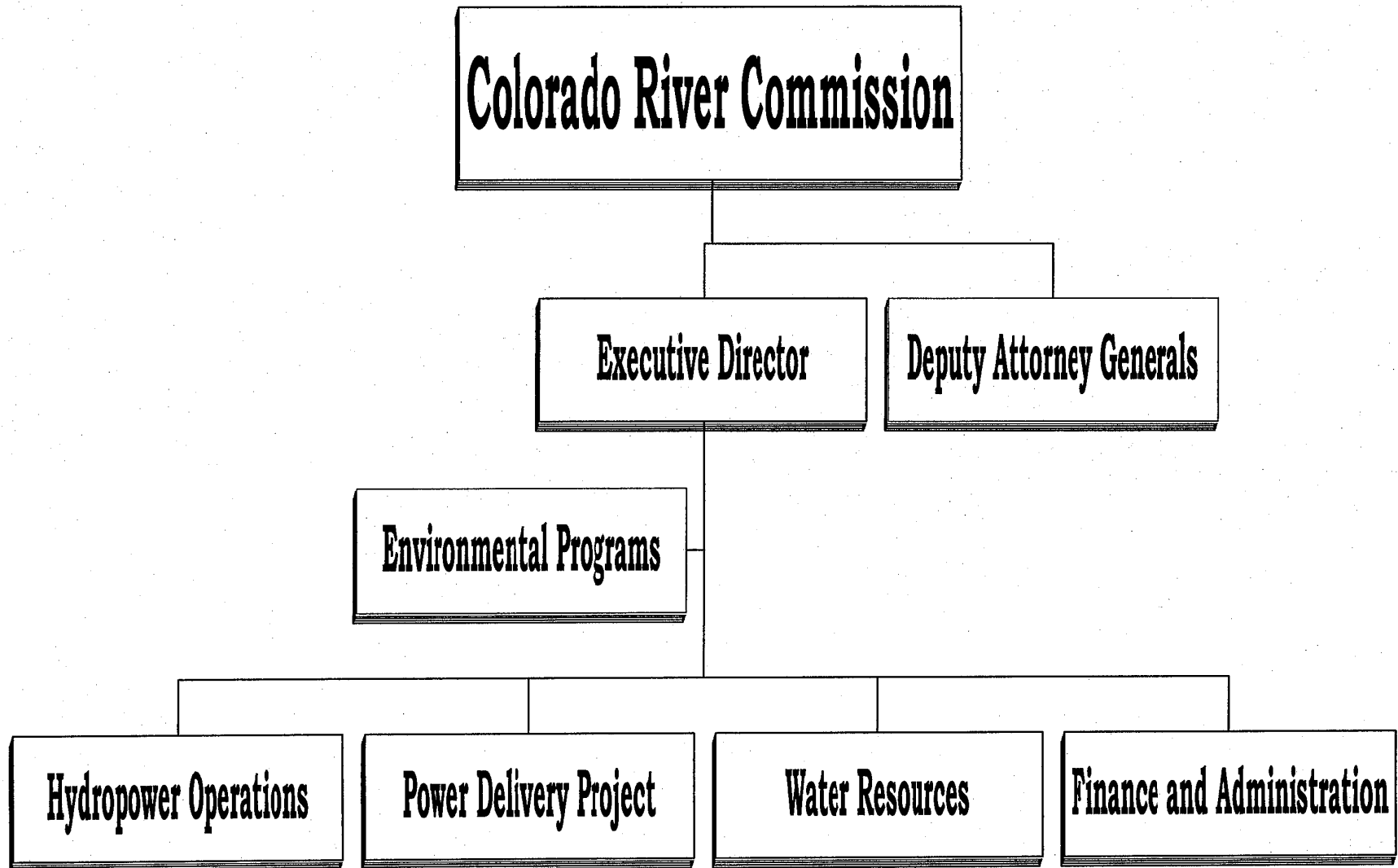
A handwritten signature in black ink, appearing to read "William Patrick Baker".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director

CRC Functional Organization



**FINANCIAL
SECTION**

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**INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

Colorado River Commission of Nevada
Las Vegas, Nevada

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information which collectively comprise the Colorado River Commission of Nevada, (the Commission) a component unit of the State of Nevada, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express an opinion on these financial statements based on our audit.

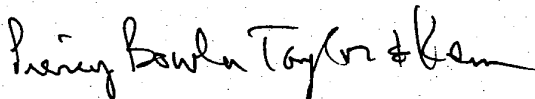
We conducted our audit in accordance with auditing standards generally accepted in the United States, and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Commission, as of June 30, 2003, and the results of its operations and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 7 to 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003, on our consideration of the Commission'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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the result of an audit.



November 7, 2003

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**MANAGEMENT'S DISCUSSION
AND
ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Colorado River Commission's annual financial report presents the analysis of the Commission's financial performance during the fiscal year that ended on June 30, 2003. This information will provide a more complete picture of Commission activities when read in conjunction with the financial statements, notes to the financial statements and letter of transmittal.

Financial Highlights

- ❖ The assets of the Commission exceeded its liabilities at the close of the fiscal year by \$9,008,296 (net assets). Of this amount, \$8,180,609 (unrestricted net assets) may be used to fund the operations of the Commission.
- ❖ The Commission's total net assets decreased by \$417,831 for the current fiscal year.
- ❖ At the end of the fiscal year, the Commission's unreserved fund balance in the general fund decreased by \$12,077 from the prior year. This minor decrease is a result of decreased interest and other income.

Overview of the Financial Statements

The Commission is a special purpose government entity. It is empowered primarily to administer the Colorado River water resources given to the State of Nevada by the Federal Government, and to provide electric power resources to specific legislatively approved entities. The water resources have been allocated to a regional governmental entity, the Southern Nevada Water Authority (SNWA), and the power resources are provided mostly to governmental or quasi-governmental entities with a limited number of industrial end users grandfathered in to the Commission's service authority. Thus the enterprise funds have a statutorily limited customer base. The Commission is not empowered to seek or serve any additional entities. The water function is not intended to serve as an enterprise type activity and is accounted for in the Commission's general fund. The electric power function, while not intended to generate a profit, is accounted for through the use of two enterprise funds. One of the funds (Power Delivery Project Fund) records the transactions related to the Commission's major customer, the SNWA. The resources of this fund provide electric power for the SNWA's water pumping needs. The other enterprise fund (Power Marketing Fund) records the transactions related to all of the Commission's other power customers, and includes the hydropower resources allocated to the State. These resources are from Federal Hydropower Projects (Hoover Dam, Parker Dam, and others) on the Colorado River. In addition to these funds, the

Commission administers two special revenue type governmental funds to account for land and research and development projects.

The Colorado River Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Colorado River Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Colorado River Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The functions reported on the Commission's financial statements are principally supported by user fees and charges. The water related activities are supported by an administrative fee assessed on the SNWA and the power related activities are supported through administrative charges assessed as part of the sale of electric resources. Land and other activities are funded through specific contractual charges assessed on the benefiting entity.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund

balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

The Commission maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the special revenue funds. Only the general fund is considered a major fund and the two special revenue funds are combined into a single aggregate presentation. Individual fund data for the two special revenue funds is provided in the combining statements in this report.

The Commission maintains two proprietary (enterprise) funds, both of which are considered major funds. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements. These funds provide the same type of information as the government-wide financial statements, but in more detail.

The Commission adopts an annual budget for all funds. A budgetary comparison is provided in this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and fund financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. Increases or decreases in the net assets may, over time be an indicator of improving or deteriorating health of the entity. However, this must be evaluated with other factors, some of which are detailed below.

Colorado River Commission's Net Assets

| | Governmental Activities | | | Business-type Activities | | |
|--|----------------------------|---------------------|-----------------------|-----------------------------|-----------------------|------------------------|
| | 2003 | 2002 | Change | 2003 | 2002 (Restated) | Change |
| Current and other assets | \$ 4,862,519 | \$ 5,109,769 | \$ (247,250) | \$ 45,076,496 | \$ 93,237,141 | \$ (48,160,645) |
| Other assets | 122,638 | 170,115 | (47,477) ¹ | 15,941,843 | 130,838,815 | (14,896,972) |
| Total assets | <u>\$ 4,985,157</u> | <u>\$ 5,279,884</u> | <u>\$ (294,727)</u> | <u>\$ 161,018,339</u> | <u>\$ 224,075,956</u> | <u>\$ (63,057,617)</u> |
| Long-term liabilities | \$ 207,288 | \$ 171,184 | \$ 36,104 | \$ 112,788,971 | \$ 121,959,659 | \$ (9,170,688) |
| Other liabilities | 2,726,118 | 2,336,954 | 389,164 | 41,272,823 | 9,461,914 | 31,810,909 |
| Total liabilities | <u>\$ 2,933,406</u> | <u>\$ 2,508,138</u> | <u>\$ 425,268</u> | <u>\$ 154,061,794</u> | <u>\$ 131,421,573</u> | <u>\$ 22,640,221</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 122,638 | 170,115 | (47,477) | | | |
| Restricted | | | | 705,049 | 707,007 | (1,958) |
| Unrestricted | 1,929,113 | 2,601,629 | (672,516) | 6,251,496 | 5,947,376 | 304,120 |
| Total net assets | <u>\$ 2,051,751</u> | <u>\$ 2,771,744</u> | <u>\$ (719,993)</u> | <u>\$ 6,956,545</u> | <u>\$ 6,654,383</u> | <u>\$ 302,162</u> |

The Commission has a significant amount of capital assets in the enterprise funds. These assets have been fully funded through the issuance of General Obligation Revenue Supported Bonds. The contracts with Commission customers provide for collections equal to the bond debt payments only. The Commission does not include depreciation expense in its charges for power. This means that the net assets related to capital investment will never be significant for the Commission's enterprise funds, no matter the cost of the assets. It is possible that in the early years of the asset life, when depreciation is higher than the underlying debt service, that there may be a negative investment in capital assets. All things being equal, at the end of the asset and debt life the net investment should be zero. The Commission's primary net asset value will be related to operating and restricted cash balances. At the current time, the net capital assets of the power funds are equal to zero. This is because most of the assets are very new, and the full value of the debt remains.

The governmental activities of the Commission are small in comparison to the capital and power purchasing activities. The Commission's water related efforts, some small land activities, and other minor functions form the bulk of the governmental programs. These activities are funded on a current basis through administrative assessments and the Commission carries minimal cash balances for these activities. The activities related to the electric power utility function are large and generate millions of dollars in both revenues and expenses. However, as the Commission's contracts for power allow only for recovery of cost (including administrative expenses), these activities do not contribute significant amounts to net assets. In fact, based on timing differences between collections from customers and payment to vendors, the contributions to net assets from these activities may be negative in any given year. The following chart demonstrates the contribution from these two revenue sources:

| | Governmental Activities | | | Business-type Activities | | |
|--------------------------|-------------------------|---------------------|--------------------|--------------------------|---------------------|---------------------|
| | 2003 | 2002 | Change | 2003 | 2002 (Restated) | Change |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Administrative charges | \$ 2,154,840 | \$1,534,328 | \$ 620,512 | | | |
| Power sales revenue: | | | | | | |
| Power marketing | | | | \$117,233,246 | \$135,200,158 | (\$17,966,912) |
| Power delivery | | | | 26,499,508 | 26,766,833 | -267,325 |
| General revenues: | | | | | | |
| Investment income | 69,509 | 122,439 | (52,930) | 1,573,273 | 2,897,930 | (1,324,657) |
| Miscellaneous income | 24,390 | 48,781 | (24,391) | | | |
| Total revenues | <u>2,248,739</u> | <u>1,705,548</u> | <u>543,191</u> | <u>145,306,027</u> | <u>164,864,921</u> | <u>(19,558,894)</u> |
| Expenses: | | | | | | |
| General government | 2,968,732 | 1,888,664 | 1,080,068 | | | |
| Power purchase expenses: | | | | | | |
| Power marketing | | | | 117,616,074 | 135,697,615 | (18,081,541) |
| Power delivery | | | | 27,387,791 | 24,653,645 | 2,734,146 |
| Total expenses | <u>2,968,732</u> | <u>1,888,664</u> | <u>1,080,068</u> | <u>145,003,865</u> | <u>160,351,260</u> | <u>(15,347,395)</u> |
| Change in net assets | <u>(719,993)</u> | <u>(183,116)</u> | <u>(536,877)</u> | <u>302,162</u> | <u>4,513,661</u> | <u>(4,211,499)</u> |
| Net assets, beginning | <u>2,771,744</u> | <u>2,954,860</u> | <u>(183,116)</u> | <u>6,654,383</u> | <u>2,140,722</u> | <u>4,513,661</u> |
| Net assets, ending | <u>\$ 2,051,751</u> | <u>\$ 2,771,744</u> | <u>\$(719,993)</u> | <u>\$ 6,956,545</u> | <u>\$ 6,654,383</u> | <u>\$ 302,162</u> |

Financial Analysis of Government Funds.

The Colorado River Commission uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All cash receipts and disbursements are processed and recorded by the State Controller. Budgetary and cash control is imposed by the controller on the general and special revenue funds. Cash control is required for the enterprise funds. No vouchers are processed for payment unless adequate budget authority exists.

The Commission downloads data from the State Controller related to revenue and expense transactions. These downloads are imported into a computerized general ledger for reporting purposes. As more fully explained in note 1 to the financial statements, the accounting policies of the Commission conform to, and its financial statements have been prepared in accordance with, generally accepted accounting principles applicable to government units.

The Commission is not subject to regulation by federal or state utility regulatory bodies. However, the Commission is adapting its chart of accounts and accounting procedures for the Power Delivery Project fund (an enterprise fund) to generally follow Federal Energy Regulatory Commission guidelines to the extent legally and practically possible.

General governmental activity of the Commission is recorded in the general fund on the Commission's comprehensive annual financial report.

Revenues of the Commission's general fund totaled \$2,178,926 in 2003-03, \$614,028 more than the \$1,564,898 realized in 2001-02. The net increase in revenues was a result of increased billings for the water administrative fee to bring the water operating fund up to working capital levels. In addition to these two direct revenue charges, the general fund receives reimbursements from other Commission funds for work performed related to activities of those funds. These reimbursements are for labor charges and overhead expenses. Note that all personnel related charges are recorded in the general fund.

Funding sources for the Commission's general administrative functions were as follows:

| | 2002 - 2003 | | 2001 - 2002 | |
|---------------------------------|---------------------|----------------|---------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Power administrative charge | \$ 978,394 | 27.56% | \$ 983,039 | 35.11% |
| Water administrative charge | 1,176,446 | 33.14% | 551,290 | 19.69% |
| Interest income | 24,086 | 0.68% | 30,569 | 1.09% |
| Total Revenues | 2,178,926 | 61.39% | 1,564,898 | 55.89% |
| Allocated salaries and overhead | 1,370,659 | 38.61% | 1,234,937 | 44.11% |
| All Funding Sources | \$ 3,549,585 | 100.00% | \$ 2,799,835 | 100.00% |

Net expenditures of the general fund totaled \$2,191,003, which is \$316,009 more than the \$1,874,994 expended during fiscal 2001-02. This was primarily due to an increase in personnel and related costs. Change in levels of expenditures for the preceding year is as follows:

| | <u>2002-03</u> | <u>2001-02</u> | <u>Increase/ (Decrease)</u> |
|--------------------------------------|---------------------|---------------------|---------------------------------|
| General Administration | | | |
| Personnel | \$ 2,445,514 | \$ 2,080,522 | \$ 364,992 |
| Travel | 66,728 | 67,778 | (1,050) |
| Operating | 1,023,899 | 915,256 | 108,643 |
| Equipment | 25,521 | 46,375 | (20,854) |
| Total general administration | <u>3,561,662</u> | <u>3,109,931</u> | <u>451,731</u> |
| Less allocated salaries and overhead | (1,370,659) | (1,234,937) | (135,722) |
| Net expenditures | <u>\$ 2,191,003</u> | <u>\$ 1,874,994</u> | <u>\$ 316,009</u> |

Unreserved fund balances in the general fund and special revenue funds at year-end compared to the previous year were:

| Fund | <u>Fund Balance June 30</u> | | <u>Increase/ (Decrease)</u> |
|-------------------------------|-----------------------------|-------------|---------------------------------|
| | <u>2003</u> | <u>2002</u> | |
| General Fund | \$ 719,660 | \$ 731,737 | \$ (12,077) |
| Research and Development Fund | 181,901 | 344,463 | (162,562) |
| Ft. Mohave Development Fund | 1,234,840 | 1,652,526 | (417,686) |

The General Fund budget for the current fiscal year was adjusted to reflect additional anticipated personnel. The cost of the personnel was to be recovered by overhead allocation. Ultimately, these personnel costs were not incurred because the positions were not filled. The only other significant differences between budget and actual results relate to the Commission's budgeting for water research and development activities (outside contracts and travel-related activities for water acquisition efforts) that were not incurred during the year.

The Research and Development Fund balance of \$181,901 is available for engineering studies, analyses, negotiations and other efforts in protecting the interests of the State in the development of water and power resources. Note that no new revenue is collected in this fund unless it is under a specific contract for a specific project.

The Fort Mohave Development Fund balance of \$1,234,840 represents unspent money from the sale of land and easements. These funds are available for planning and managing the development of the area. Assembly Bill 494, enacted as Chapter 822, Statutes of Nevada, 1987, provides that any remaining fund balances in the Fort Mohave Development Fund can be used by Clark County for infrastructure needs in the Laughlin Nevada area. Unless the Commission sells additional land in the Fort Mohave transfer area there will be no new revenues for this fund. At the present time there are no land sales anticipated. The County may draw this fund balance to near zero at any time for any approved capital improvement project.

Capital Assets

The Commission's investment in capital assets for its governmental and business type activities as of June 30, 2003 amounts to \$69,266,562 (net of accumulated depreciation). This investment includes the power delivery system, automobiles (both administrative vehicles and power delivery project utility vehicles) and office furniture and equipment. Please refer to the notes to the financial statements for more detailed information related to the capital assets of the Commission.

Colorado River Commission's Capital Assets (net of depreciation)

| | Governmental Activities | | | Business-type Activities | | |
|-------------------------------|----------------------------|------------|-------------|-----------------------------|---------------|----------------|
| | 2003 | 2002 | Change | 2003 | 2002 | Change |
| Power transmission system | | | | \$ 62,370,650 | \$ 70,026,429 | \$ (7,655,779) |
| Automobiles and related | \$ 58,201 | \$ 82,751 | \$ (24,550) | 61,605 | 42,816 | 18,789 |
| Office equipment | 55,042 | 73,811 | (18,769) | | | |
| Office furniture and fixtures | 9,395 | 13,553 | (4,158) | | | |
| Construction in progress | | | | 6,711,669 | 4,428,951 | 2,282,718 |
| Total | \$ 122,638 | \$ 170,115 | \$ (47,477) | \$ 69,143,924 | \$ 74,498,196 | \$ (5,354,272) |

Debt Administration

As of June 30, 2003, outstanding long-term obligations of the Commission consisted of the following:

| Bond Description | Average Interest Rate(%) | Maturity Date | Balance Outstanding |
|--|--------------------------------|------------------|------------------------|
| Hoover Uprating refunding, series 2001 | 5.4 | 2017 | \$ 6,305,000 |
| Hoover Uprating refunding, series 2002 | 5.4 | 2016 | 36,420,000 |
| Power Delivery Project, series 1997A | 5.6 | 2027 | 46,705,000 |
| Power Delivery Project, series 1999A | 5.5 | 2030 | 25,480,000 |

All of the Commission's outstanding bonds are both general obligation and revenue supported (double-barreled) bonds. The bonds are backed by the full faith and credit of the State of Nevada, however they have always been, and will continue to be, self-supporting debt payable from revenues from the sale of power.

The Commission refunded some of the Hoover related debt in the current fiscal year resulting in a reduction of annual payments. This will also result in a reduction of annual debt service payments. The refunding was the second part of a forward refunding undertaken in the prior year based on the favorable market interest rates. At this time, the Commission does not foresee any additional refunding, nor does it intend to seek any further bond authorization from the State in the next two years. Please refer to the notes to the financial statements for more detailed information related to debt activity of the Commission.

Requests for Information

This financial report is designed to provide a general overview of the Colorado River Commission's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Division Chief, Finance and Administration, Colorado River Commission, 555 East Washington Avenue, Suite 3100 Las Vegas, NV, 89101. In addition, the Commission maintains a website that provides additional information and contacts. The website address is http://www.state.nv.us/Colorado_river/.

BASIC FINANCIAL STATEMENTS

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COLORADO RIVER COMMISSION

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|-----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash, unrestricted | \$ 2,011,258 | \$ 14,159,518 | \$ 16,170,776 |
| Receivables: | | | |
| Accounts | 81,121 | 7,706,083 | 7,787,204 |
| Accrued interest | 9,670 | 83,590 | 93,260 |
| Due from other funds (internal balances are eliminated in the total column) | 1,130,990 | 4,698,556 | |
| Collateral for loaned securities | 1,629,480 | 16,236,234 | 17,865,714 |
| Current portion of prepaid power | | 2,192,515 | 2,192,515 |
| Total current assets | <u>4,862,519</u> | <u>45,076,496</u> | <u>44,109,469</u> |
| Noncurrent assets: | | | |
| Restricted cash | | 5,754,600 | 5,754,600 |
| Capital assets: | | | |
| Depreciable buildings, property and equipment, net | 122,638 | 62,432,255 | 62,554,893 |
| Construction in progress | | 6,711,669 | 6,711,669 |
| Prepaid power, net of current portion | | 41,043,319 | 41,043,319 |
| Total noncurrent assets | <u>122,638</u> | <u>115,941,843</u> | <u>116,064,481</u> |
| Total assets | <u>\$ 4,985,157</u> | <u>\$ 161,018,339</u> | <u>\$ 160,173,950</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 213,216 | \$ 8,185,484 | \$ 8,398,700 |
| Obligations under securities lending | 1,629,480 | | 1,629,480 |
| Due to other funds (internal balances are eliminated in the total column) | 883,422 | 398,922 | |
| Total current liabilities | <u>2,726,118</u> | <u>8,584,406</u> | <u>10,028,180</u> |
| Payable from restricted assets: | | | |
| Accounts payable | | 219,784 | 219,784 |
| Contract retentions payable | | 371,430 | 371,430 |
| Payable to customers | | 8,461,274 | 8,461,274 |
| Bonds payable within 1 year | | 1,135,000 | 1,135,000 |
| Due to other funds (internal balances are eliminated in the total column) | | 4,547,203 | |
| Accrued interest | | 1,717,492 | 1,717,492 |
| Obligations under securities lending | | 16,236,234 | 16,236,234 |
| Total payable from restricted assets | | <u>32,688,417</u> | <u>28,141,214</u> |
| Noncurrent liabilities: | | | |
| General obligation bonds payable, noncurrent | | 113,775,000 | 113,775,000 |
| Unamortized bond discount | | (825,021) | (825,021) |
| Unamortized deferred refunding charge | | (2,550,525) | (2,550,525) |
| Unamortized bond premium | | 2,364,919 | 2,364,919 |
| Advance from customer | | 24,598 | 24,598 |
| Accrued compensated absences | 207,288 | | 207,288 |
| Total noncurrent liabilities | <u>207,288</u> | <u>112,788,971</u> | <u>112,996,259</u> |
| Total liabilities | <u>2,933,406</u> | <u>154,061,794</u> | <u>151,165,654</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 122,638 | | 122,638 |
| Restricted for certain operations and maintenance | | 705,049 | 705,049 |
| Unrestricted | 1,929,113 | 6,251,496 | 8,180,609 |
| Total net assets | <u>2,051,751</u> | <u>6,956,545</u> | <u>9,008,296</u> |
| Total liabilities and net assets | <u>\$ 4,985,157</u> | <u>\$ 161,018,339</u> | <u>\$ 160,173,950</u> |

COLORADO RIVER COMMISSION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

| | Program Revenues | | Net (Expenses) Revenue and Changes in Net Assets | | Total |
|---------------------------|------------------|-------------------------|---|-----------------------------|--------------|
| | Expenses | Charges for Services | Governmental Activities | Business-type Activities | |
| Functions/Programs | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 2,968,732 | \$ 2,154,840 | \$ (813,892) | | \$ (813,892) |
| Business-type activities: | | | | | |
| Power marketing | 117,616,074 | 117,233,246 | | \$ (382,828) | (382,828) |
| Power delivery | 27,387,791 | 26,499,508 | | (888,283) | (888,283) |
| | 145,003,865 | 143,732,754 | | (1,271,111) | (1,271,111) |
| Total | \$ 147,972,597 | \$ 145,887,594 | (813,892) | (1,271,111) | (2,085,003) |
| General revenues: | | | | | |
| Investment income | | | 69,509 | 1,573,273 | 1,642,782 |
| Miscellaneous | | | 24,390 | | 24,390 |
| | | | 93,899 | 1,573,273 | 1,667,172 |
| Change in net assets | | | (719,993) | 302,163 | (417,831) |
| Net assets, beginning: | | | | | |
| As previously reported | | | 2,771,744 | 8,552,871 | 11,324,615 |
| Adjustment | | | | (1,898,488) | (1,898,488) |
| As adjusted | | | 2,771,744 | 6,654,383 | 9,426,127 |
| Net assets, ending | | | \$ 2,051,751 | \$ 6,956,545 | \$ 9,008,296 |

See notes to financial statements.

COLORADO RIVER COMMISSION

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|---------------------|---|---|
| ASSETS | | | |
| Cash | \$ 599,760 | \$ 1,411,498 | \$ 2,011,258 |
| Receivables: | | | |
| Accounts | 81,121 | | 81,121 |
| Accrued interest | 2,943 | 6,727 | 9,670 |
| Collateral for loaned assets | 485,771 | 1,143,709 | 1,629,480 |
| Due from other funds | 1,130,515 | 475 | 1,130,990 |
| Total assets | <u>\$ 2,300,110</u> | <u>\$ 2,562,409</u> | <u>\$ 4,862,519</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 213,216 | | \$ 213,216 |
| Obligations under securities lending | 485,771 | \$ 1,143,709 | 1,629,480 |
| Due to other funds | 881,463 | 1,959 | 883,422 |
| Total liabilities | <u>1,580,450</u> | <u>1,145,668</u> | <u>2,726,118</u> |
| Fund balances: | | | |
| Unreserved | <u>719,660</u> | <u>1,416,741</u> | 2,136,401 |
| Total liabilities and fund balances | <u>\$ 2,300,110</u> | <u>\$ 2,562,409</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|---------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 122,638 |
| Long-term liabilities that are not due and payable in the current period are not reported in the funds | <u>(207,288)</u> |
| Net assets of governmental activities | <u>\$ 2,051,751</u> |

COLORADO RIVER COMMISSION

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| REVENUES | | | |
| Charges for services | \$ 2,154,840 | | \$ 2,154,840 |
| Investment income | 24,086 | \$ 45,423 | 69,509 |
| Miscellaneous | | 24,390 | 24,390 |
| Total revenues | <u>2,178,926</u> | <u>69,813</u> | <u>2,248,739</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General administration | 3,541,596 | 694,148 | 4,235,744 |
| Less salaries and overhead recovered by allocation | <u>(1,370,659)</u> | | <u>(1,370,659)</u> |
| Net general administration expenditures | 2,170,937 | 694,148 | 2,865,085 |
| Water purchases | 20,066 | | 20,066 |
| Total expenditures | <u>2,191,003</u> | <u>694,148</u> | <u>2,885,151</u> |
| Deficiency of revenues under expenditures | (12,077) | (624,335) | (636,412) |
| Fund balances, beginning | <u>731,737</u> | <u>2,041,076</u> | <u>2,772,813</u> |
| Fund balances, ending | <u>\$ 719,660</u> | <u>\$ 1,416,741</u> | <u>\$ 2,136,401</u> |

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|---------------------|
| Deficiency of revenues under expenditures, total governmental funds | \$ (636,412) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded net capital outlays in the current period. | (47,477) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds | <u>(36,104)</u> |
| Change in net assets of governmental activities | <u>\$ (719,993)</u> |

COLORADO RIVER COMMISSION

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003**

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Power administrative charge | \$ 1,060,870 | \$ 1,060,870 | \$ 978,394 | \$ (82,476) |
| Water charges | 1,221,259 | 1,221,259 | 1,176,446 | (44,813) |
| Investment income | 47,900 | 47,900 | 24,086 | (23,814) |
| Total revenues | <u>2,330,029</u> | <u>2,330,029</u> | <u>2,178,926</u> | <u>(151,103)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General administration | | | | |
| Personnel services | 2,355,268 | 2,609,465 | 2,445,514 | 163,951 |
| Travel: | | | | |
| Out-of-state | 75,000 | 75,000 | 57,183 | 17,817 |
| In-state | 11,220 | 11,220 | 9,545 | 1,675 |
| Operating: | | | | |
| Water purchases | 50,000 | 50,000 | 20,066 | 29,934 |
| Insurance | 3,000 | 3,000 | 10,744 | (7,744) |
| Legal | 355,528 | 355,528 | 355,971 | (443) |
| Other | 950,884 | 950,884 | 637,118 | 313,766 |
| Equipment, furniture and software | 27,047 | 27,047 | 25,521 | 1,526 |
| Total expenditures | <u>3,827,947</u> | <u>4,082,144</u> | <u>3,561,662</u> | <u>520,482</u> |
| Less salaries and overhead recovered by allocation | <u>(1,010,817)</u> | <u>(1,545,659)</u> | <u>(1,370,659)</u> | <u>(175,000)</u> |
| Net expenditures | <u>2,817,130</u> | <u>2,536,485</u> | <u>2,191,003</u> | <u>345,482</u> |
| Deficiency of revenues under expenditures | (487,101) | (487,101) | (12,077) | 194,379 |
| Fund balance, beginning | <u>742,255</u> | <u>742,255</u> | <u>731,737</u> | <u>(10,518)</u> |
| Fund balance, ending | <u>\$ 255,154</u> | <u>\$ 255,154</u> | <u>\$ 719,660</u> | <u>\$ 183,861</u> |

COLORADO RIVER COMMISSION

**BALANCE SHEET
 PROPRIETARY FUNDS
 JUNE 30, 2003**

| | Business-type Activities Enterprise Funds | | |
|---------------------------------------|--|----------------------|-----------------------|
| | Power Marketing | Power Delivery | Totals |
| ASSETS | | | |
| Current assets: | | | |
| Cash | \$ 11,843,673 | \$ 2,315,845 | \$ 14,159,518 |
| Receivables: | | | |
| Accounts | 6,314,993 | 1,391,090 | 7,706,083 |
| Accrued interest | 72,558 | 11,032 | 83,590 |
| Due from other funds | 3,964,772 | 733,784 | 4,698,556 |
| Collateral for loaned securities | 11,547,902 | 4,688,332 | 16,236,234 |
| Current portion of prepaid power | 2,192,515 | | 2,192,515 |
| | <u>35,936,413</u> | <u>9,140,083</u> | <u>45,076,496</u> |
| Noncurrent assets: | | | |
| Restricted cash | 2,320,097 | 3,434,503 | 5,754,600 |
| Capital assets: | | | |
| Power transmission system, net | | 62,370,650 | 62,370,650 |
| Automobiles and equipment, net | | 61,605 | 61,605 |
| Construction in progress | | 6,711,669 | 6,711,669 |
| Prepaid power, net of current portion | 41,043,319 | | 41,043,319 |
| | <u>41,043,319</u> | <u>69,143,827</u> | <u>110,187,146</u> |
| TOTAL ASSETS | <u>\$ 79,299,829</u> | <u>\$ 81,718,510</u> | <u>\$ 161,018,339</u> |

(Continued)

COLORADO RIVER COMMISSION

**BALANCE SHEET
 PROPRIETARY FUNDS (CONTINUED)
 JUNE 30, 2003**

| | Business-type Activities | | |
|---|--------------------------|----------------------|-----------------------|
| | Enterprise Funds | | |
| | Power Marketing | Power Delivery | Totals |
| LIABILITIES: | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 8,185,484 | | \$ 8,185,484 |
| Due to other funds | 398,922 | | 398,922 |
| | <u>8,584,406</u> | | <u>8,584,406</u> |
| Payable from restricted assets: | | | |
| Accounts payable | | \$ 219,784 | 219,784 |
| Contract retentions payable | | 371,430 | 371,430 |
| Payable to customers | 8,039,079 | 422,195 | 8,461,274 |
| Bonds payable within 1 year | | 1,135,000 | 1,135,000 |
| Due to other funds | | 4,547,203 | 4,547,203 |
| Accrued interest | 575,350 | 1,142,142 | 1,717,492 |
| Obligations under securities lending | 11,547,902 | 4,688,332 | 16,236,234 |
| | <u>20,162,331</u> | <u>12,526,086</u> | <u>32,688,417</u> |
| Noncurrent liabilities: | | | |
| State of Nevada general obligation bonds payable | 42,725,000 | 71,050,000 | 113,775,000 |
| Unamortized discount on bonds | | (825,021) | (825,021) |
| Unamortized deferred refunding charge | (2,550,525) | | (2,550,525) |
| Unamortized premium on bonds | 2,364,919 | | 2,364,919 |
| Advance from customer | 24,598 | | 24,598 |
| | <u>42,563,992</u> | <u>70,224,979</u> | <u>112,788,971</u> |
| TOTAL LIABILITIES | <u>71,310,729</u> | <u>82,751,065</u> | <u>154,061,794</u> |
| NET ASSETS: | | | |
| Restricted for certain operations and maintenance | 705,049 | | 705,049 |
| Unrestricted | 7,284,051 | (1,032,556) | 6,251,496 |
| TOTAL NET ASSETS | <u>7,989,100</u> | <u>(1,032,556)</u> | <u>6,956,545</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 79,299,829</u> | <u>\$ 81,718,509</u> | <u>\$ 161,018,339</u> |

See notes to financial statements.

COLORADO RIVER COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2003**

| | Business-type Activities Enterprise Funds | | |
|-----------------------------------|--|-------------------|----------------|
| | Power Marketing | Power Delivery | Totals |
| OPERATING REVENUES: | | | |
| Power sales | \$ 117,233,246 | \$ 26,499,508 | \$ 143,732,754 |
| OPERATING EXPENSES: | | | |
| Power purchases | 115,695,008 | 19,812,542 | 135,507,550 |
| Prepaid power advances | 1,345,706 | | 1,345,706 |
| Depreciation | | 1,791,183 | 1,791,183 |
| General administration | 192,532 | 1,703,207 | 1,895,739 |
| Total operating expenses | 117,233,246 | 23,306,932 | 140,540,177 |
| OPERATING INCOME | | 3,192,576 | 3,192,576 |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Investment income | 1,104,903 | 468,370 | 1,573,273 |
| Interest expense | (382,828) | (4,080,859) | (4,463,687) |
| CHANGE IN NET ASSETS | 722,075 | (419,914) | 302,162 |
| TOTAL NET ASSETS, BEGINNING: | | | |
| As previously reported | 7,267,025 | 1,285,846 | 8,552,871 |
| Adjustment | | (1,898,488) | (1,898,488) |
| As adjusted | 7,267,025 | (612,642) | 6,654,383 |
| TOTAL NET ASSETS, ENDING | \$ 7,989,100 | \$ (1,032,556) | \$ 6,956,545 |

See notes to financial statements.

COLORADO RIVER COMMISSION

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

| | Business -type Activities Enterprise Funds | | |
|---|---|---------------------|------------------------|
| | Power Marketing | Power Delivery | Totals |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | \$ 94,985,919 | \$ 26,032,796 | \$ 121,018,715 |
| Cash paid for goods and services | (124,489,432) | (20,431,583) | (144,921,015) |
| Net cash provided by (used in) operating activities | <u>(29,503,513)</u> | <u>5,601,213</u> | <u>(23,902,300)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Proceeds from refunding bonds | 36,751,057 | | 36,751,057 |
| Interest paid (charged to prepaid power in the Power Marketing fund) | (1,502,834) | (4,383,381) | (5,886,215) |
| Bonds refunded | (44,015,000) | | (44,015,000) |
| Principal payments on bonds | | (1,045,000) | (1,045,000) |
| Net cash used in noncapital financing activities | <u>(8,766,777)</u> | <u>(5,428,381)</u> | <u>(14,195,158)</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | | |
| Repayments to customers | (763,778) | | (763,778) |
| Acquisition of property, plant and equipment | | (2,186,805) | (2,186,805) |
| Net cash used in capital financing activities | <u>(763,778)</u> | <u>(2,186,805)</u> | <u>(2,950,583)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest received | 1,034,118 | 512,414 | 1,546,532 |
| NET DECREASE IN CASH (RESTRICTED AND UNRESTRICTED) | | | |
| | (37,999,950) | (1,501,558) | (39,501,509) |
| CASH, BEGINNING | | | |
| | 52,163,720 | 7,251,906 | 59,415,626 |
| CASH, ENDING | | | |
| | <u>\$ 14,163,770</u> | <u>\$ 5,750,348</u> | <u>\$ 19,914,118</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | | |
| Operating income | | \$ 3,192,576 | \$ 3,192,576 |
| Depreciation | | 1,791,183 | 1,791,183 |
| Amortization of prepaid power | \$ 1,345,706 | | 1,345,706 |
| (Increase) decrease in accounts receivable | 6,435,704 | (659,883) | 5,775,821 |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable and contract retentions | (5,759,874) | (1,783,000) | (7,542,874) |
| Due to/from other funds | (2,842,017) | 2,867,166 | 25,149 |
| Payable to customers | (28,683,033) | 193,171 | (28,489,862) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>\$ (29,503,514)</u> | <u>\$ 5,601,214</u> | <u>\$ (23,902,300)</u> |

See notes to financial statements

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NOTES TO FINANCIAL STATEMENTS

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COLORADO RIVER COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

1. Summary of significant accounting policies:

A. Reporting entity

The Colorado River Commission (the Commission) is responsible for managing Nevada's interests in the water and power resources available from the Colorado River. The Commission also owns land for future development in the Ft. Mohave valley in southern Nevada.

Seven commissioners have broad statutory authority to govern the Commission, which constitutes the reporting entity. The Commission, as a component unit of the State of Nevada (the State), is also an integral part of that reporting entity.

All the Commission's cash receipts and disbursements are processed and recorded by the State Controller. Budgetary and cash controls are imposed by the State Controller on the Commission's general and special revenue funds, while other State-imposed cash control requirements apply only to the Commission's enterprise funds. The Commission maintains its own revenue, expense and general journals and a general ledger.

The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to government units as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, along with related pronouncements. The GASB is the

accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission is not subject to regulation by federal or state utility regulatory bodies such as the Federal Energy Regulatory Commission or the Nevada Public Service Commission.

B. Basis of presentation, basis of accounting

Basis of presentation

Government-wide financial statements: The statement of net assets and the statement of activities display information on all of the activities of the overall government. Eliminations have been made where appropriate to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the Commission. Governmental activities generally are financed through taxes, inter-governmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Commission. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to that particular program or function. Any indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues consist of charges paid by the recipients of services offered by the

COLORADO RIVER COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2003

programs. Revenues that are not classified as program revenues, are presented as general revenues.

Fund financial statements: The fund financial statements provide information about the Commission's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues include investment earnings and revenues resulting from ancillary activities.

The Commission reports the *general fund* as its only major governmental fund. The general fund is the Commission's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Commission reports the following major enterprise funds:

Power marketing enterprise fund. This fund operates as a public utility and accounts for the activities of providing electrical power generated at a federal facility to its customers.

Power delivery enterprise fund. This fund is used to account for the

construction and operation of power transmission equipment for the Southern Nevada Water System.

Measurement focus, basis of accounting

Government-wide and proprietary fund financial statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. There are no nonexchange transactions – those for which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange – reported in the accompanying financial statements.

The Commission has elected not to follow private-sector guidance for accounting and financial reporting issued after November 30, 1989, in reporting business-type activities in enterprise funds.

Governmental fund financial statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, principally charges for services and investment income, are susceptible to accrual and, therefore, recognized when measurable and available. Revenues are considered to be available if they are collected within sixty days after year-end. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures only when

COLORADO RIVER COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2003

payment is due. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Assets, liabilities, and equity

Cash equivalents

The Commission's restricted and unrestricted cash is deposited with the State Treasurer (the Treasurer) in a fund similar to an external investment pool. Because the amounts deposited with the Treasurer are sufficiently liquid to permit withdrawals in the form of cash at any time without prior notice or penalty, they are deemed to be cash equivalents.

State statutes authorize the Treasurer to invest the Commission's deposits in certain obligations of the United States of America or its agencies or instrumentalities and of state and local governments, as well as other instruments specified in Section 355.170 of Nevada Revised Statutes. The Treasurer is also permitted by statute to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The fair value of the underlying securities attributed to the Commission is reported as a current asset, "collateral for loaned securities," and an offsetting current liability payable from restricted assets, "obligations under securities lending."

Deposits include unrealized gains and losses on invested funds as reported by the Treasurer.

Receivables and payables

All outstanding balances between funds are reported as "due to/from other funds."

All trade receivables are shown net of any appropriate allowance for uncollectibles.

Prepaid power

The Commission has participated with the State (Note 7) in funding the improvement and renovation ("uprating") of the electrical power generation plant at Hoover Dam, which supplies the majority of the power sold through the Power Marketing Fund. These costs will be reimbursed in the form of power consumption and charged to expense as the related debt amortizes over an extended period of time. The estimated value of power to be received during the next fiscal year is classified as a current prepaid expense in the fund.

Restricted cash equivalents

The various debt service, operation and maintenance (O&M), capital improvement and construction (acquisition) funds limited as to use by bond covenants are classified as restricted cash equivalents on the balance sheet. Restricted assets are provided either from bond proceeds or retained earnings. Retained earnings are reserved to the extent restricted assets exceed related liabilities.

COLORADO RIVER COMMISSION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

Capital assets

Purchased or constructed capital assets are recorded at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The capitalization threshold is \$1,000.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Commission during the current fiscal year was \$6,150,161, of which none was capitalized and included as part of the cost of assets under construction.

Capital assets of the Commission are depreciated using the straight-line method over the following estimated useful lives:

| | Years |
|----------------------------------|-------|
| Governmental activities: | |
| Office equipment | 5 |
| Office furniture and fixtures | 5 |
| Automobiles | 4-6 |
| Business-like activities: | |
| Power transmission systems | 10-50 |

Compensated absences

It is the Commission's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Commission does not have a vesting policy that requires it to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the

government-wide, proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of any applicable unamortized premium, discount or refunding charges.

2. Stewardship, compliance, and accountability

Budgetary information

Biennial budgets are adopted on a basis consistent with GAAP except that encumbrances for goods and services not received by fiscal year end are considered expenditures of the current period solely for budgetary purposes. This basis differs from GAAP; however, there are no encumbrances outstanding at the beginning and end of the year. Although budgets are adopted on a biennial basis, each year is treated separately and unexpended budget authorizations lapse at each year-end.

Prior to September 1 of each even-numbered year, the director submits proposed operating budgets to the Nevada Budget Division covering the biennium beginning the following

COLORADO RIVER COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2003

July 1. After review of the budgets by the Nevada Budget Division between September 1 and November 15, hearings involving the Commission, the Director of Administration and the governor are held between November 15 and December 22. The biennium budgets are transmitted to the Legislature no later than the 10th day of the session held in odd numbered years and, before adjourning, the Legislature enacts the budgets.

Net expenditures of the general fund (gross expenditures less amounts allocated to other funds) are controlled to budget categories (personnel services, travel instate, travel out-of-state, operating expenses, and capital outlay for the general fund; and general and administrative, purchase of land and intergovernmental for the special revenue funds).

Management of the Commission cannot amend any budget categories. However, the Nevada Director of Administration is authorized to approve requests for changes in the budget involving transfers between expenditure categories not exceeding 10% of originally budgeted expenditures, or \$25,000 in the aggregate, of the respective budget categories. Any changes exceeding 10% or \$25,000 require approval of the Legislature's Interim Finance Committee.

Bond covenants

Following is a brief summary of the covenants included in the bond resolutions of the enterprise funds:

The Commission is required to charge purchasers of service and all users of the state facilities sufficient amounts to cover all operation and maintenance expenses (except depreciation), all debt service requirements, and any amounts required to be deposited in reserve accounts.

Monthly transfers for Debt Service – A debt service account is required to ensure payment of interest and principal when due. Transfers are made each month from revenues to provide 1/6 of the next semiannual interest payment and 1/12 of the annual bond maturity.

Classes of Users – The Power Marketing fund serves two classes of users, retail utility customers and industrial customers. The Power Delivery fund serves the Southern Nevada Water System and its customers.

Other – Other requirements of the bond covenants include maintaining bond funds in separate depository accounts with the State Treasurer, and an audit of the Commission's financial statements by an independent certified public accountant. During the fiscal year ended June 30, 2003, the Commission complied with all requirements of the bond covenants.

Excess of expenditures over appropriations

No net budget amounts were exceeded in any category during fiscal year 2002-2003.

COLORADO RIVER COMMISSION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

categorized as to credit risk.

3. Cash deposits

At year-end, the Commission's carrying amount ("book value") of restricted and unrestricted cash deposits was \$21,925,376 and the State Treasurer's balance was \$21,549,678. These deposits with the Treasurer are not

4. Restricted cash

Cash restricted at June 30, 2003, by bond covenants is summarized as follows:

| | Power Marketing Fund | Power Delivery Fund |
|-----------------------------------|-------------------------------------|------------------------------------|
| Restricted for: | | |
| Debt service | \$ 1,615,048 | |
| Construction reserve | | \$ 3,434,503 |
| Reserve for revenue insufficiency | <u>705,049</u> | |
| Total restricted assets | <u>\$ 2,320,097</u> | <u>\$ 3,434,503</u> |

5. Capital assets:

Capital asset activity for the year ended June 30, 2003 was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|-------------------------------|--------------------|------------------|----------------------------|
| Governmental activities: | | | | |
| Capital assets being depreciated: | | | | |
| Office equipment | \$ 225,219 | \$ 17,859 | | \$ 243,078 |
| Office furniture and fixtures | 28,539 | | | 28,539 |
| Automobiles | <u>161,038</u> | | | <u>161,038</u> |
| Total capital assets being depreciated | <u>414,796</u> | <u>17,859</u> | | <u>432,655</u> |
| Less accumulated depreciation for: | | | | |
| Office equipment | (151,408) | (36,628) | | (188,036) |
| Office furniture and fixtures | (14,986) | (4,158) | | (19,144) |
| Automobiles | <u>(78,287)</u> | <u>(24,550)</u> | | <u>(102,837)</u> |
| Total accumulated depreciation | <u>(244,681)</u> | <u>(65,336)</u> | | <u>(310,017)</u> |
| Governmental activities capital assets, net | <u>\$ 170,115</u> | <u>\$ (47,477)</u> | | <u>\$ 122,638</u> |

COLORADO RIVER COMMISSION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

| Business-type activities: | Beginning balances | Increases | Decreases | Ending balances |
|--|---------------------------|------------------|------------------|------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress (Note 10) | \$ 4,428,951 | \$ 2,282,718 | | \$ 6,711,669 |
| Capital assets being depreciated: | | | | |
| Power transmission system | 67,853,545 | | \$ 135,597 | 67,717,948 |
| Office equipment | 28,601 | 2,511 | | 31,112 |
| Automobiles | 32,524 | 39,649 | | 72,173 |
| Total capital assets being depreciated | 67,914,670 | 42,160 | 135,597 | 67,821,233 |
| Less accumulated depreciation for: | | | | |
| Power transmission system | (3,571,447) | (1,775,851) | | (5,347,298) |
| Office equipment and automobiles | (26,348) | (15,332) | | (41,680) |
| Total accumulated depreciation | (3,597,795) | (1,791,183) | | (5,388,978) |
| Business-type activities capital assets, net | \$ 68,745,826 | \$ 533,695 | \$ 135,597 | \$ 69,143,924 |

Depreciation expense was charged to functions/programs as follows:

| | |
|----------------------------|--------------|
| Governmental activities: | |
| General government | \$ 65,336 |
| Business-type activities: | |
| Power transmission system | 1,791,183 |
| Total depreciation expense | \$ 1,856,519 |

6. Balances due to/from other funds

The composition of interfund balances, representing the net of short-term advances and repayments, as of June 30, 2003, is as follows:

| Funds: | Due From | Due To |
|--------------------------|-----------------|---------------|
| General | \$ 1,130,515 | \$ 881,463 |
| Ft. Mohave | 475 | 1,816 |
| Research and development | | 143 |
| Power marketing | 3,964,773 | 398,322 |
| Power delivery | 733,784 | 4,547,203 |
| | \$ 5,829,547 | \$ 5,829,547 |

7. Long-term debt:

General Obligation Bonds

Section 3 of Article 9 of the Nevada State Constitution limits public debt to 2% of the State's assessed valuation.

The legislature may authorize debt that is not subject to the foregoing limitation to protect and preserve, or obtain the benefits of, any of its property or natural resources. The bonded debt incurred to fund the State's share of the cost of uprating electrical generating facilities at Hoover Dam does not affect the legal debt margin, because it was incurred to obtain the benefits of a natural resource.

General obligation bonds (series May 1, 1987B) in the amount of \$79,800,000 were sold in 1987, to provide the money needed to fund the State's share of the cost of financing the uprating of electrical generating facilities at Hoover Dam. The bonds mature annually on October 1 through 2017. Interest rates range from 6.0 to 10.75% per annum. Interest is payable semi-annually on April 1 and October 1. During the year ended June 30, 2002, this bond issue was in-substance defeased using the proceeds from the issuance, on November 1, 2001, of the Series 2001 State of Nevada Colorado River Commission General Obligation (Limited Tax) Hoover Uprating Refunding Bonds (the Series 2001 bonds).

COLORADO RIVER COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2003

General obligation bonds (Hoover Uprating Bonds 1992 Series) in the amount of \$72,310,000 were sold in 1992. Proceeds were used to advance refund \$65,845,000 of the 1987B Hoover uprating bonds which amount is still outstanding. The bonds mature annually on October 1 through 2016. Interest rates range from 6.0 to 6.6% per annum. Interest is payable semi-annually on April 1 and October 1. During the year ended June 30, 2003, this bond issue was in-substance defeased using the proceeds from the issuance, on July 9, 2002, of the Series 2002 State of Nevada Colorado River Commission General Obligation (Limited Tax) Hoover Uprating Refunding Bonds (the Series 2002 bonds).

General obligation bonds (Power Delivery Project Bonds, series September 15, 1997) in the amount of \$49,270,000 were sold in 1997. Proceeds were used to finance the costs of acquiring, constructing and equipping certain electric power transmission and distribution facilities to serve the planned expansion of the Southern Nevada Water System. The bonds mature annually on September 15 from 2000 through 2027. Interest rates range from 4.25 to 7% per annum. Interest is payable semi-annually on March 15 and September 15.

On September 15, 1999, the Commission sold \$27,730,000 State of

Nevada, Colorado River Commission, General Obligation (Limited Tax) (Revenue Supported), Power Delivery Project Bonds, Series 1999A. The bonds are to finance the costs of acquiring, constructing and equipping certain electric power transmission and distribution facilities to serve the planned expansion of the Southern Nevada Water System. The bonds mature annually on September 15 from 2003 through 2030. Interest rates range from 4.5 to 6.5% per annum. Interest is payable semi-annually on March 15 and September 15.

On November 1, 2001, the Commission sold the \$6,305,000 Series 2001 bonds. Proceeds from these bonds were used to advance refund the Series May 1, 1987B bonds. The bonds mature on October 1, 2017, with interest payable semi-annually on April 1 and October 1 at the rate of 5.375% per annum.

On July 9, 2002, the Commission sold the \$36,420,000 Series 2002 bonds. Proceeds from these bonds, along with other available funds, were used to advance refund the Series 1992 bonds. The bonds mature annually on October 1, 2008 through October 1, 2016, with interest payable semi-annually on April 1 and October 1 at the rate of 5.375% per annum.

General obligation bonds outstanding at year end are summarized as follows:

COLORADO RIVER COMMISSION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

| | Maturity Dates | Interest Rates | Outstanding June 30, 2003 |
|--|---------------------------|---------------------------|--------------------------------------|
| Business-type activities: | | | |
| Power deliver bonds, series 1997A | 2000-2027 | 4.25 to 7% | 46,705,000 |
| Power deliver bonds, series 1999A | 2002-2030 | 4.5 to 6.5% | 25,480,000 |
| Hoover uprating refunding, series 2001 | 2017 | 5.375% | 6,305,000 |
| Hoover uprating refunding, series 2002 | 2008-2016 | 5.375% | 36,420,000 |
| | | | \$ 114,910,000 |

Annual debt service requirements to maturity for all long-term debt consisting of general obligation bonds are as follows:

| Year Ending June 30 | Business-type Activities | |
|--------------------------------|---------------------------------|----------------------|
| | Principal | Interest |
| 2004 | \$ 1,135,000 | \$ 6,186,581 |
| 2005 | 1,225,000 | 6,127,715 |
| 2006 | 1,420,000 | 6,058,665 |
| 2007 | 1,620,000 | 5,978,128 |
| 2008 | 1,705,000 | 5,875,328 |
| 2009-2013 | 28,215,000 | 25,332,160 |
| 2014-2018 | 37,810,000 | 16,661,880 |
| 2019-2023 | 17,045,000 | 9,068,681 |
| 2024-2028 | 22,110,000 | 3,834,000 |
| 2029-2030 | 2,625,000 | 123,047 |
| Total | \$ 114,910,000 | \$ 85,246,184 |

Advance and current refundings

In 1996, the Commission advance refunded a portion of the Series 1992 term bonds in with a face value of \$17,235,000. The balance of the Series 1992 bonds were advance refunded with proceeds from the Series 2002 bonds sold on July 9, 2002.

On November 1, 2001, the Commission refunded the Series May 1, 1987B bonds with face value of \$6,880,000. The

reacquisition price exceeded the net carrying amount of the old debt by \$59,760. This amount is being netted against the new debt and amortized over the life of the new debt issue, which is the same as the remaining life of the refunded debt.

Changes in long-term obligations

Changes in long-term obligations during fiscal 2003 are summarized below:

COLORADO RIVER COMMISSION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

| | Balance July 1, 2002 | Additions | Reductions | Balance June 30, 2003 | Current |
|----------------------------------|-------------------------|----------------------|----------------------|--------------------------|---------------------|
| Governmental activities: | | | | | |
| Accrued compensated absences | \$ 171,184 | \$ 36,104 | | \$ 207,288 | |
| Business-type activities: | | | | | |
| General obligation bonds | 123,550,000 | 36,420,000 | \$ 45,060,000 | 114,910,000 | \$ 1,135,000 |
| Unamortized bond premium | 218,518 | 2,316,145 | 169,744 | 2,364,919 | 169,744 |
| Unamortized bond discount | (859,423) | | (34,402) | (825,021) | (34,402) |
| Unamortized refunding charges | (692,812) | (2,040,233) | (182,520) | (2,550,525) | (182,520) |
| Advance from customer | 788,376 | | 763,778 | 24,598 | 24,598 |
| Total | \$ 123,175,843 | \$ 36,732,016 | \$ 45,776,600 | \$ 114,131,259 | \$ 1,112,420 |

8. Segment information

The Commission has issued general obligation bonds (in some cases revenue supported) to finance uprating of the electrical generating facilities at Hoover Dam and to finance the costs of acquiring, constructing and equipping electrical power transmission and distribution facilities. Although these bonds have historically been paid from the revenues of the Commission's enterprise funds, the financial position, results of operations and cash flows of these enterprise funds are presented separately in the accompanying proprietary fund financial statements and no additional segment information disclosure is considered necessary.

9. Risk management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions. The Commission participates in the State risk pool and is liable for payment of nominal deductible amounts. The State then becomes

responsible for all losses in excess of the nominal deductible.

10. Commitments and contingencies

Construction

As of June 30, 2003, management estimates that the remaining commitment for construction of phase II of the power transmission system will not exceed \$1,000,000. This commitment is being financed by limited tax, revenue supported general obligation bonds of the State of Nevada.

Forward contracts

The Commission has entered into forward contracts to purchase electrical power at a specified time in the future at a guaranteed price. The Commission enters into these contracts to help plan power costs for the year and to protect itself against an increase in market prices.

It is possible that the market price before or at the specified time to

COLORADO RIVER COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2003

purchase electrical power may be lower than the price at which the Commission is committed to buy. This would reduce the value of the contract. The Commission may make a termination payment to the counterparty to cancel its obligation under the contract and then buy electrical power on the open market.

On March 11, 2003, the Commission entered into a settlement agreement and mutual release with Enron Power Marketing, Inc. (EPMI) to terminate all forward energy purchase contracts (the Contracts) with EPMI. As consideration for the early termination of the Contracts, the Commission paid EPMI \$7,050,000, which was charged against payable to customers.

On March 26, 2003, the Commission entered into a termination agreement with Mirant Americas Energy Marketing, LP (Mirant) to terminate all forward energy purchase contracts (the Contracts) with Mirant. As consideration for the early termination of the Contracts, the Commission paid Mirant \$31,100,000, which was which was charged against payable to customers.

The Commission is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the Commission have to procure electrical power on the open market. Available credit ratings for counterparties range between Aa1 and Ca when rated by Moodys, between AA+ and D when rated by Standard & Poors, and between AAA and D when rated by Fitch.

Currently, the guaranteed price on all of the Commission's forward contracts is

above market and is expected to remain so for the foreseeable future. Consequently, any failure of a counterparty to perform would be to the financial benefit of the Commission.

Management estimates that upon receiving delivery of energy under the forward contracts, the Commission would likely be required to pay the cumulative amount of approximately \$65 million in excess of the market price forecasted at the delivery date. A major customer has committed to reimburse the Commission for up to \$53 million in such excess power costs incurred under the forward contracts.

Management's estimate of the forecasted market price was determined using Platts' published market forecasts for on-peak (high demand) delivery points for which the Commission has contracts. For other delivery points with on-peak pricing, adjustments were made to the Platts' forecasts using information obtained from other brokers, such as Natsource and TFS. Pricing information was obtained from the same other brokers for all delivery points for which the Commission has off-peak positions. A broad range of estimated values can be obtained, depending upon which published forecast is selected. For example, approximately \$35 million would be obtained using Platts', and approximately \$98 million using Henwood's, published market forecasts. Coincidentally, management's estimate falls roughly in the middle of these values.

All of the Commission's power customers are contractually obligated for electrical power purchased or sold on their behalf by the Commission. These are generally "take or pay" contracts, meaning that the customer is

COLORADO RIVER COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2003

required to make or receive payment regardless of whether or not the power is actually delivered.

Ongoing litigation between the Commission and one of its power customers (the Customer) was settled in the current fiscal year. Effective January 1, 2003, all contracts for the purchase of hydropower between the Commission and the Customer were terminated, with the understanding that the Customer would assign its interests in the hydropower contracts to the Southern Nevada Water Authority (SNWA), who agreed to pay the Commission \$53,000,000 to be recognized as revenue by the Commission as hydropower is supplied to the SNWA. The SNWA also agreed to assume any and all liability related to the forward energy purchase contracts that were in place between the Commission and the Customer at the time the settlement agreement was reached.

On September 11, 2001, the United States was subjected to extensive terrorist attacks likely to continue to have far-reaching effects on economic activity in the country for an indeterminate period. The long-term impact on the southern Nevada economy and the Commission's operations cannot be predicted at this time, but may be substantial.

Arbitrage Rebate Requirement

The federal Tax Reform Act of 1986 imposes a rebate requirement with respect to some bonds issued by the Commission. Under this Act, an amount may be required to be rebated to the United States Treasury, for interest on the bonds to qualify for exclusion from gross income for federal income tax purposes. Rebutable arbitrage is

computed as of each installment computation date. The arbitrage rebate calculation as of the most recent such date indicates that no amount is due. Future calculations might result in adjustments to this determination.

11. Subsequent events

On September 2, 2003, the Commission entered into a termination agreement with Williams Power Company, Inc. (Williams) to terminate all forward energy purchase contracts (Contracts) with Williams. As consideration for the early termination of the Contracts, the Commission paid Williams \$13,121,600, to be charged against payable to customers.

12. Employee retirement system

All Commission employees participate in the Nevada Public Employees Retirement Systems (PERS), a cost-sharing, multiple-employer, public employee retirement system. PERS was established in 1948 by the State legislature and is governed by the Public Employees Retirement Board whose seven members are appointed by the Governor. The Commission exercises no control over PERS and is not liable for any obligations of the system.

PERS provides pension, survivor, death and disability benefits, which are determined by State statute. Various payment options for these benefits are available. Regular members of the system receive full benefits upon retirement at:

- Age 65 with at least 5 years of service
- Age 60 with 10 or more years of service
- Any age with 30 or more years of service

COLORADO RIVER COMMISSION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

Retirement benefits, payable monthly for life, are equal to 2 ½% of their final average salary for each year of credited service up to a maximum of 90 percent if hired before July 1, 1985, and up to a maximum of 75% if hired on or after that date. Final average salary is the employee's average compensation for the 36 consecutive months of highest compensation. Benefits fully vest on reaching 5 years of service. Vested employees who have the necessary years of credited service, but have not attained the required age, may retire at any age with the benefit actuarially reduced by 2% of the unmodified benefit for each year the member is under the appropriate retirement age.

Employees have the option of either contributing 9.75% of their salary, which is matched by the Commission, or, under the employer paid option, taking a 9.5% reduction in gross pay with the Commission contributing 18.75% of salary to PERS.

Contribution rates are established by state statute and provide for yearly increases of up to 1% until such time as the actuarially determined unfunded liability of PERS is reduced to zero. The required contribution for fiscal years ending in 2001-2003 was as follows:

| Year Ending | Contribution Rate | | Covered Payroll | | Contribution Paid by the Commission | |
|-------------|-------------------|-----------------------|-----------------|-----------------------|-------------------------------------|-----------------------|
| | Regular Members | | | | | |
| | Employer | Employer/ Employee | Employer | Employer/ Employee | Employer | Employer/ Employee |
| June 30 | | | | | | |
| 2001 | 18.75% | 9.75% | \$ 496,670 | \$ 749,425 | \$ 92,751 | \$ 73,069 |
| 2002 | 18.75% | 9.75% | 513,967 | 1,128,425 | 96,369 | 110,021 |
| 2003 | 18.75% | 9.75% | 637,056 | 1,295,087 | 119,448 | 126,271 |

PERS issues a comprehensive annual financial report that includes financial statements and required supplementary information of the plan. Those reports may be obtained by contacting them at the following address:

Public Employees Retirement System
of Nevada
693 W. Nye Lane
Carson City, NV 89703-1599
(702) 687-4200

13. Prior period adjustment

As of July 1, 2002, net assets of the Power Delivery enterprise fund were retroactively restated for the \$1,898,488 effect of premature recognition of revenues in the prior year, and an equal understatement of payable to customers at June 30, 2002.

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**COMBINING & INDIVIDUAL
FUND STATEMENTS & SCHEDULES**

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COLORADO RIVER COMMISSION

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003**

| | <u>Special Revenue</u> | | <u>Total</u> |
|--|--|---|--|
| | <u>Ft. Mohave Valley Development</u> | <u>Research and Development</u> | <u>Nonmajor Governmental Funds</u> |
| ASSETS | | | |
| Cash | \$ 1,230,632 | \$ 180,866 | \$ 1,411,498 |
| Accrued interest receivable | 5,549 | 1,178 | 6,727 |
| Collateral for loaned assets | 997,157 | 146,552 | 1,143,709 |
| Due from other funds | 475 | | 475 |
| Total assets | \$ 2,233,813 | \$ 328,596 | \$ 2,562,409 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Obligations under securities lending | \$ 997,157 | \$ 146,552 | \$ 1,143,709 |
| Due to other funds | 1,816 | 143 | 1,959 |
| Fund balances: | | | |
| Unreserved | 1,234,840 | 181,901 | 1,416,741 |
| Total liabilities and fund balances | \$ 2,233,813 | \$ 328,596 | \$ 2,562,409 |

COLORADO RIVER COMMISSION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

| | Special Revenue | | Total Nonmajor Governmental Funds |
|--|-------------------------------------|--------------------------------|--|
| | Ft. Mohave Valley Development | Research and Development | |
| REVENUES | | | |
| Investment income | \$ 37,234 | \$ 8,189 | \$ 45,423 |
| Miscellaneous | 24,390 | | 24,390 |
| Total revenues | <u>61,624</u> | <u>8,189</u> | <u>69,813</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General administration | <u>597,628</u> | <u>96,520</u> | <u>694,148</u> |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | (536,004) | (88,331) | (624,335) |
| FUND BALANCES, BEGINNING | <u>1,770,844</u> | <u>270,232</u> | <u>2,041,076</u> |
| FUND BALANCES, ENDING | <u>\$ 1,234,840</u> | <u>\$ 181,901</u> | <u>\$ 1,416,741</u> |

COLORADO RIVER COMMISSION

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FT. MOHAVE VALLEY DEVELOPMENT
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2003**

| | <u>Original and Final Budget Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget- Positive (Negative)</u> |
|--|--|---------------------------|--|
| REVENUES | | | |
| Investment income | \$ 92,514 | \$ 37,234 | \$ (55,280) |
| Miscellaneous | 24,390 | 24,390 | - |
| Total revenues | <u>116,904</u> | <u>61,624</u> | <u>(55,280)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General administration | <u>620,275</u> | <u>597,628</u> | <u>22,647</u> |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | (503,371) | (536,004) | (32,633) |
| FUND BALANCE, BEGINNING | <u>1,754,023</u> | <u>1,770,844</u> | <u>16,821</u> |
| FUND BALANCE, ENDING | <u>\$ 1,250,652</u> | <u>\$ 1,234,840</u> | <u>\$ (15,812)</u> |

COLORADO RIVER COMMISSION

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
RESEARCH AND DEVELOPMENT
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2003**

| | <u>Original and Final Budget Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget- Positive (Negative)</u> |
|--|--|---------------------------|--|
| REVENUES | | | |
| Investment income | \$ 16,952 | \$ 8,189 | \$ (8,763) |
| Power and water surcharge | 404,800 | | (404,800) |
| Total revenues | <u>421,752</u> | <u>8,189</u> | <u>(413,563)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General administration | <u>404,800</u> | <u>96,520</u> | <u>308,280</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 16,952 | (88,331) | (105,283) |
| FUND BALANCE, BEGINNING | <u>267,629</u> | <u>270,232</u> | <u>2,603</u> |
| FUND BALANCE, ENDING | <u>\$ 284,581</u> | <u>\$ 181,901</u> | <u>\$ (102,680)</u> |

COLORADO RIVER COMMISSION

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
JUNE 30, 2003 AND 2002**

| | <u>2003</u> | <u>2002</u> |
|---|-------------------|-------------------|
| GOVERNMENTAL FUNDS CAPITAL ASSETS: | | |
| Equipment: | | |
| Office equipment | \$ 243,078 | \$ 225,219 |
| Office furniture and fixtures | 28,539 | 28,539 |
| Automobiles | <u>161,038</u> | <u>161,038</u> |
| TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS | <u>\$ 432,655</u> | <u>\$ 414,796</u> |
| INVESTMENT IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE - General fund | <u>\$ 432,655</u> | <u>\$ 414,796</u> |

COLORADO RIVER COMMISSION

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**

FOR THE YEAR ENDED JUNE 30, 2003

| | General Fixed Assets July 1, 2002 | Additions | Retirements | General Fixed Assets June 30, 2003 |
|-----------------------------------|---|------------------|-------------|--|
| GENERAL GOVERNMENT: | | | | |
| Office equipment | \$ 225,219 | \$ 17,859 | | \$ 243,078 |
| Office furniture and fixtures | 28,539 | | | 28,539 |
| Automobiles | 161,038 | | | 161,038 |
| TOTAL GENERAL FIXED ASSETS | \$ 414,796 | \$ 17,859 | | \$ 432,655 |

STATISTICAL SECTION

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COLORADO RIVER COMMISSION

GOVERNMENT-WIDE EXPENSES BY FUNCTION

LAST TEN FISCAL YEARS (UNAUDITED)

Table 1

| Years | General Government | Power Marketing | Power Delivery | Water Treatment(1) | Water Transmission(1) | Total |
|---------|-----------------------|--------------------|-------------------|-----------------------|--------------------------|---------------|
| 1993-94 | \$ 845,345 | \$ 31,684,355 | | \$ 11,504,451 | \$ 34,303,283 | \$ 78,337,434 |
| 1994-95 | 1,988,851 | 27,815,888 | | 15,701,265 | 34,735,980 | 80,241,984 |
| 1995-96 | 2,033,478 | 24,686,298 | | 7,510,074 | 13,140,966 | 47,370,816 |
| 1996-97 | 4,000,821 | 24,775,248 | | | | 28,776,069 |
| 1997-98 | 1,705,627 | 24,899,198 | | | | 26,604,825 |
| 1998-99 | 1,783,047 | 27,317,968 | \$ 827,558 | | | 29,928,573 |
| 1999-00 | 1,470,033 | 28,455,202 | 2,027,173 | | | 31,952,408 |
| 2000-01 | 1,588,288 | 128,676,608 | 21,119,778 | | | 151,384,674 |
| 2001-02 | 1,807,732 | 135,697,615 | 24,653,645 | | | 162,158,992 |
| 2002-03 | 2,874,241 | 117,616,074 | 27,387,791 | | | 147,878,106 |

(1) Fiscal year 1995-96 is only through December 31, 1995, after which the system was transferred to the Southern Nevada Water Authority.

COLORADO RIVER COMMISSION

GOVERNMENT-WIDE REVENUES

LAST TEN FISCAL YEARS (UNAUDITED)

Table 2

| Years | <u>Program Revenues</u> | <u>General Revenues</u> | | |
|---------|----------------------------|--|---------------|---------------|
| | Charges for Services | Unrestricted Investment Earnings | Miscellaneous | Total |
| 1993-94 | \$ 77,725,291 | \$ 976,243 | \$ 25,588 | \$ 78,727,122 |
| 1994-95 | 76,880,458 | 1,080,737 | 3,744,844 | 81,706,039 |
| 1995-96 | 45,941,621 | 731,799 | 74,910 | 46,748,330 |
| 1996-97 | 26,342,493 | 340,049 | 178,608 | 26,861,150 |
| 1997-98 | 26,099,256 | 278,392 | 254,377 | 26,632,025 |
| 1998-99 | 29,022,023 | 972,848 | 134,954 | 30,129,825 |
| 1999-00 | 32,488,154 | 863,252 | 25,800 | 33,377,206 |
| 2000-01 | 151,041,072 | 2,583,633 | 37,990 | 153,662,695 |
| 2001-02 | 163,501,320 | 3,020,368 | 48,781 | 166,570,469 |
| 2002-03 | 145,887,594 | 1,642,782 | 24,390 | 147,554,766 |

COLORADO RIVER COMMISSION

GOVERNMENTAL REVENUES BY SOURCE

LAST TEN FISCAL YEARS (UNAUDITED)

Table 3

| Years | Charges for Services | Investment Earnings | Miscellaneous | Total |
|---------|----------------------------|------------------------|---------------|--------------|
| 1993-94 | \$ 873,868 | \$ 102,445 | \$ 25,588 | \$ 1,001,901 |
| 1994-95 | 895,688 | 160,234 | 3,744,844 | 4,800,766 |
| 1995-96 | 568,515 | 638,047 | 74,910 | 1,281,472 |
| 1996-97 | 1,567,245 | 206,814 | 178,608 | 1,952,667 |
| 1997-98 | 1,415,865 | 141,620 | 254,377 | 1,811,862 |
| 1998-99 | 1,482,707 | 139,280 | 134,954 | 1,756,941 |
| 1999-00 | 1,964,196 | 125,104 | 25,800 | 2,115,100 |
| 2000-01 | 1,599,600 | 207,909 | 37,990 | 1,845,499 |
| 2001-02 | 1,534,329 | 122,439 | 48,781 | 1,705,549 |
| 2002-03 | 2,154,840 | 69,509 | 24,390 | 2,248,739 |

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**ADDITIONAL REPORT OF
INDEPENDENT AUDITORS**

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Colorado River Commission of Nevada
Las Vegas, Nevada

We have audited the financial statements of the Colorado River Commission of Nevada (the Commission), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 7, 2003. We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

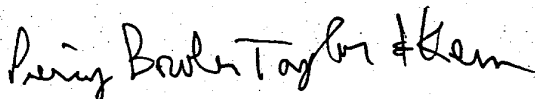
Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants (including the bond resolutions and ordinances of the General Obligation Hoover Uprating Bonds, 2002 series and 2001 series, and the Power Delivery Project Bonds, Series September 15, 1997A and Series September 15, 1999A), noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the Commission's internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the State of Nevada. However, this report is a matter of public record, and its distribution is not limited.



November 7, 2003