

SANTA FE TRAIL RANCH

METROPOLITAN DISTRICT

REPORT ON EXAMINATION

DECEMBER 31, 2003

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT

DECEMBER 31, 2003

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SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
ROSTER OF OFFICERS AND DIRECTORS
December 31, 2003

BOARD OF DIRECTORS

Jim Davis	President
Will Potter	Secretary
Dennis Scott	Treasurer
Tom Stephens	Director
John Woods	Director

Board of Directors
Santa Fe Trail Ranch Metropolitan District
Trinidad, CO 81082

Independent Auditor's Report

We have audited the accompanying general-purpose financial statements of the Santa Fe Trail Ranch Metropolitan District as of December 31, 2003 and for the year ended, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Santa Fe Trail Ranch Metropolitan District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the general-purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Santa Fe Trail Ranch Metropolitan District as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The supplementary data listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of the Santa Fe Trail Ranch Metropolitan District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

June 18, 2004

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
BALANCE SHEET
December 31, 2003

ASSETS

Current Assets

Cash	373,816
Accounts Receivable	448,741
<u>Total Current Assets</u>	<u>822,557</u>

Utility Plant in Service

Construction in Progress - Water Delivery System	2,946,041
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Other Assets

Property Owner Receivables	770
Bond Issue Costs, Net	51,100
<u>Total Other Assets</u>	<u>51,870</u>

<u>TOTAL ASSETS</u>	<u>3,820,468</u>
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LIABILITIES AND EQUITY

Liabilities

Current Liabilities

Accounts Payable	84,215
Accrued Interest Payable	31,824
Current Maturities - Long Term Debt	100,125
Advanced Assessments	20,829
<u>Total Current Liabilities</u>	<u>236,993</u>

Long-Term Debt

1,630,566

Total Liabilities

1,867,559

Fund Equity

Contributed Capital-Owners Association	768,499
Retained Earnings	1,184,410
<u>Total Fund Equity</u>	<u>1,952,909</u>

<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>3,820,468</u>
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The accompanying notes are an integral part of these financial statements.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
STATEMENT OF INCOME
Year Ended December 31, 2003

OPERATING REVENUE

System Revenue

Water Sales	-
Fees (Connection)	-
<u>Total System Revenue</u>	<u>-</u>

Operating Expenses

Legal	28,086
Professional Fees	8,564
Personnel and Administration	318
Insurance	1,750
Other General and Administrative	529
Repairs	2,716
Utilities/Storage	2,433
	<u>44,396</u>

Net Loss Before other Operating Items (44,396)

Other Operating Revenue

Owner Assessments-Bond Payments	725,067
Late Fees	1,287
Other	4,515
	<u>730,869</u>

Other Operating Expense

Interest	2,051
Amortization	3,075
	<u>5,126</u>

Total Income from Operations 681,347

Non Operating Revenue

Interest	102
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NET INCOME (LOSS) 681,449

The accompanying notes are an integral part of these financial statements.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2003

	<u>Contributed Capital- Owners Association</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance - January 1	768,499	502,961	1,271,460
Capital Contributions	-	-	-
Net Income (Loss)	<u>-</u>	<u>681,449</u>	<u>681,449</u>
Balance - December 31	<u>768,499</u>	<u>1,184,410</u>	<u>1,952,909</u>

The accompanying notes are an integral part of these financial statements.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2003

Cash Flows from Operating Activities

Net Income (Loss) - Operations	681,347
Adjustments to Reconcile:	
Depreciation	-
Amortization	3,075
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(374,432)
(Increase) Decrease in Accounts Receivable – Property Owners	(26)
Increase (Decrease) in Accounts Payable	14,825
Increase (Decrease) in Advanced Assessments	<u>2,874</u>
<u>Net Cash Provided (Used) by Operations</u>	<u>327,663</u>

Cash Flows from Capital and Related Financing Activities

Proceeds from Debt	190,690
Principal Paid - Long-Term Debt	(60,000)
Interest Paid - Long-Term Debt	(89,481)
Construction of Water System	(87,691)
Debt Origination Costs	<u>(10,000)</u>
<u>Net Cash Provided (Used) by Capital and Related Financing Activities</u>	<u>(56,482)</u>

Cash Flows from Investing Activities

Interest Revenue	<u>102</u>
Net Increase (Decrease) in Cash	271,283
<u>Cash - Beginning of Year</u>	<u>102,533</u>
<u>Cash - End of Year</u>	<u>373,816</u>
Cash Paid for Income Tax	<u>-</u>
Cash Paid for Interest	<u>89,481</u>

The accompanying notes are an integral part of these financial statements.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Santa Fe Trail Ranch Metropolitan District (the Metro District or the District) is a political subdivision of the State of Colorado with rights, privileges, authorities, functions and duties established by statute, particularly Title 32, Article 1 of the Colorado Revised Statutes. It is governed by a five member board of directors. The Metro District was organized in May 13, 1998.

The Metro District was created for the purpose of providing water and television relay and translation facilities and services immediately with the authority to provide various improvements and maintain them including streets, traffic safety, park and recreation facilities, mosquito control and sanitary sewer.

The reporting entity, for financial statement purposes, is defined as the primary government (Santa Fe Trail Ranch Metropolitan District) and its component units. The Metro District has no component units. The fund type is described in subsequent information in this footnote.

Basis of Accounting

The accrual basis of accounting is followed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation

Depreciation for telephone lines was previously computed on the straight-line method over the estimated useful life of 40 years. The telephone lines were transferred to U.S. West in 2001 and no depreciation expense was incurred. No depreciation has been provided on the water delivery system under construction.

Amortization

Amortization of bond costs is computed on a straight-line basis over the term of the bonds.

Revenue Recognition

Operating revenues are recognized when billed. Property taxes (if levied), net of estimated uncollected taxes will be recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenues will then be recorded as revenue in the year they are available or collected.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Under a water purchase contract, the District must pay an amount to the seller each time an individual tap is issued. This amount will be recovered from the property owner and will be recognized as revenue when the owner is billed. Costs to connect the customers to the system will be recovered by the District in the form of a tap fee and will be recognized as revenue when due from the customer.

Fund Accounting

The accounts at the District are organized on the fund accounting basis. The District maintains one proprietary fund type described as follows:

Enterprise Fund - to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the governing body is that the costs (expenses, including depreciation) of providing goods or services to the members on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Utility Plant in Service

The construction in progress (water delivery system) is recorded at Association transferred cost plus District cost.

Budgetary Accounting

Revenues and expenditures are controlled by budgetary accounting systems in accordance with various legal requirements. The budgeted revenues and expenditures represent the original adopted budget as subsequently adjusted by the Board of Directors. Budgets are prepared on a non-GAAP basis.

The District has set procedures to be followed in establishing the budgetary data reflected in the financial statements:

1. Prior to October 15, the Treasurer submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Accounting (Continued)

2. Public notices are released to obtain taxpayer comments.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. The Treasurer is authorized to transfer budgeted amounts between categories, however, any revisions that alter the total expenditures of the Board must be approved by the Board of Directors. No revisions were made in the year ended December 31, 2003.

Property Taxes

Under Colorado law, all property taxes become due and payable in the year following that in which they are levied. Property taxes are recognized as revenue when payable to the County Treasurer. Property taxes attach as an enforceable lien on property as of January 1. Taxes may be paid without penalty in either of two ways: (a) Full payment by April 30, or (b) First half must be paid by last day of February, and second half must be paid by June 15.

Although the Metro District has the authority to levy ad valorem taxes, none were levied in December of 2002 for collection in 2003 or in December of 2003 for collection in 2004.

Accounting Standards

The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Interest Costs Incurred During Construction

It is the policy of the District to capitalize net interest costs incurred during the construction of capital assets in accordance with generally accepted accounting principles. The amount of interest capitalized in 2003 was \$90,558.

Cash

Cash for purposes of financial statement presentation and use in the statement of cash flows represents deposits with financial institutions.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 2 CASH DEPOSITS

The District's deposits at year end were covered by Federal depository insurance or secured under the Public Deposit Protection act of the State of Colorado, whereby custodial banks pledge collateral for amounts in excess of the amount guaranteed by the FDIC for governmental entities.

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	200,000	200,000
Uninsured, Collateralized	<u>173,925</u>	<u>173,816</u>
<u>Total Cash Deposits</u>	<u>373,925</u>	<u>373,816</u>

NOTE 3 LONG-TERM DEBT

The Metro District issued \$1,800,000 of General Obligation Bonds dated April 1, 1999. Series A bonds of \$1,720,000 are tax-exempt with maturities from 2003 thru 2019 at interest rates from 4.75% to 6%. Series B Bonds of \$80,000 matured September 1, 2000 with an interest rate of 6%. The Series A Bonds are subject to annual sinking fund requirements to meet the varying serial maturities of \$130,000 to \$1,140,000. Interest on the bonds is payable semi-annually on March 1 and September 1. Series A Bond sinking fund payment begin on March 1, 2001 and are required semi-annually on September 1 and March 1 until repayment of all bond principal on March 1, 2019.

Annual debt services is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	65,000	88,570	153,570
2005	70,000	85,195	155,195
2006	70,000	81,590	151,590
2007	75,000	77,950	152,950
2008	80,000	73,800	153,800
2009	85,000	69,480	154,480
2010	90,000	64,350	154,350
2011	95,000	58,950	153,950
2012	100,000	53,100	153,100
2013	105,000	47,100	152,100
2014	110,000	40,650	150,650
2015	120,000	33,900	153,900
2016	125,000	26,700	151,700
2017	135,000	19,050	154,050
2018	140,000	10,800	150,800
2019	75,000	2,250	77,250
<u>Totals</u>	<u>1,540,000</u>	<u>833,435</u>	<u>2,373,435</u>

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 3 LONG-TERM DEBT (Continued)

The Metro District encompasses all of the area and property owners in the Santa Fe Trail Ranch Property Owners Association (the Association). In connection with the issuance of the bonds, the District and the Association entered into a contract and assignment, the purpose of which is to provide funds to the District to pay the debt service on the bonds. To the extent that debt service assessments are not sufficient to service the bonds, the Association will use proceeds of annual assessments to make up any shortfall. Property owners are assessed currently for debt service \$31 per month.

Line of Credit

On October 14, 2003 the Santa Fe Trail Ranch Metro District entered into loan agreement with International Bank Trinidad in the amount of \$550,000. The Metro District had borrowed \$190,690 of this amount as of December 31, 2003. The loan terms call for semi annual payments over a 7 year period with an annual interest rate of 5.5%. This loan is to be repaid from the proceeds of an assessment levied in November of 2003. The assessment calls for property owners to make one lump sum payment of \$1,250 or installments of \$225 over a seven year period. There is also a commitment from Santa Fe Trail Ranch POA to make up any shortfall to the loan payments if necessary. Listed below are the annual debt service requirements based on the amount borrowed at December 31, 2003.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	35,125	8,390	43,515
2005	79,553	7,477	87,030
2006	<u>76,012</u>	<u>951</u>	<u>76,963</u>
Total	<u>190,690</u>	<u>16,818</u>	<u>207,508</u>

NOTE 4 COMMITMENTS

The Metro District will purchase water from the City of Trinidad under a water service contract. The District will meter water usage by individual customers and bill users in amounts adequate to pay for the water purchase as well as defray the costs associated with reading meters, billing, collecting and system maintenance and operations. Under the agreement, customers tapping onto the District system will be required to pay a fee to the District to cover the District's cost of physical connection and meter installation. The District is also liable to the City of Trinidad for a Plant Investment Fee and a Water Resource Fee for each tap. Customers will be responsible for paying these fees to the District.

NOTE 5 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 5 RISK MANAGEMENT (Continued)

The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 6 CONTINGENCIES - TAX, SPENDING AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

The initial base for local government spending and revenue limits is 1992 Fiscal Year Spending. Future spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, TABOR specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or without irrevocably pledging present cash reserves for all future payments.

The District's management believes it is in compliance with the provisions of TABOR which are applicable to this entity. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits (and qualification as an Enterprise) will require judicial interpretation.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 7 SUPPLEMENTAL CASH FLOW INFORMATION

The interest incurred on bonds for the year ended December 31, 2003 was \$90,558. Cash paid was \$91,607. Of the \$90,558 of interest incurred, \$90,558 was capitalized as part of construction in progress on the Water Delivery System.

NOTE 8 RELATED PARTY DISCLOSURE

Previous to the formation of the Metro District, the Santa Fe Trail Ranch Property Owners Association (the Association) had collected funds from property owners for the purpose of construction and acquisition of telephone and water transmission systems. In 2000, the Association transferred assets consisting of cash, receivables and fixed assets to the District. These assets all related to the acquisition and construction of systems that would be completed and operated by the Metro District. The assets transferred were 1) cash of \$57,020, 2) property owner receivables for phone and water assessments of \$26,263, 3) phone lines with a cost to the association (estimated as fair value in the hands of the District) of \$456,146 and 4) \$611,178 of construction costs associated with the water system construction (estimated as fair value in the hands of the District). Contributed capital of \$1,150,607 was recorded on the District's financial statements to recognize the value of these transferred assets.

The Association, having the authority to assess property owners in the District (under the corporate by-laws of the Association and under the "Declaration of Protective Covenants, Conditions and Restrictions for Santa Fe Trail Ranch") agreed to and made a special assessment for the purpose of payment of principal and interest on the District bonds. Under an agreement between the Association and the District, the assessment is assigned to the District and constitutes "Gross Revenue" available for the payment of the General Obligation Bonds of the District now outstanding.

NOTE 9 TRANSFER OF COMMUNICATION INFRASTRUCTURE

An agreement was entered into in August of 1998 between Santa Fe Trail Ranch Property Owners Association ("the Association") and US West for the development and delivery of telephone and broadband services to all properties in the residential development. The agreement called for the Association to pay for the materials and other costs associated with the implementation of this infrastructure and transfer the title to these assets back to US West upon completion of the project. In return, US West agreed to maintain these assets and provide communication services to each homesite within the development. Prior to completion, the Association contributed these assets to the Santa Fe Trail Ranch Metropolitan District. The project was subsequently completed and per the original agreement, Santa Fe Trail Metropolitan District transferred title of the communication project assets with a depreciated value of \$433,338 to US West.

NOTE 10 ADDITIONAL CONTRIBUTIONS

During the year ended December 31, 2002 the Santa Fe Trail Ranch Property Owners Association contributed \$51,230 in cash to the Metro District to assist in operations.

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE 11 ACCOUNTS RECEIVABLE/ADVANCED ASSESSMENTS

Accounts receivable at December 31, 2003 is made up of \$392,626 in assessments receivable and \$56,115 from a construction vendor for items returns or unused by the District. Advanced assessments are amounts paid by property owners in excess of billings to date for monthly debt service assessments.

NOTE 12 BUDGET TO ACTUAL COMPARISONS (NON-GAAP BASIS)

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable <u>(Unfavorable)</u>
<u>Revenues</u>	<u>263,982</u>	730,971	<u>466,989</u>
<u>Expenses</u>	<u>270,982</u>	<u>332,645</u> 398,326	<u>(61,663)</u>
Items to Reconcile to Net Income (GAAP)			
Reserve		50,000	
Amortization		(3,075)	
Bond Principal		60,000	
Capitalized Interest		90,558	
Capital Outlay		87,691	
Interest		<u>(2,051)</u>	
Net Income – GAAP Basis		<u>681,449</u>	

SUPPLEMENTARY DATA

SANTA FE TRAIL RANCH METROPOLITAN DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET (NON-GAAP) AND ACTUAL
December 31, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
<u>Revenues</u>			
Contributed Capital – POA	51,230	-	(51,230)
Water/Meter Charges	52,552	-	(52,552)
Proceeds - Owner Time Payments	500	-	(500)
Interest and Fees	3,700	5,904	2,204
Debt Service Assessments	<u>156,000</u>	<u>725,067</u>	<u>569,067</u>
<u>Total Revenues</u>	<u>263,982</u>	<u>730,971</u>	<u>466,989</u>
<u>Expenditures</u>			
Water Cost	6,400	-	6,400
Construction/Capital Outlay	80,930	87,691	(6,761)
Administration	1,200	697	503
Accounting/Audit	5,600	8,564	(2,964)
System Expense	13,000	2,716	10,284
Bond Fees	900	150	750
Legal	-	28,086	(28,086)
Reserve	3,196	50,000	(46,804)
Bond Principal	55,000	60,000	(5,000)
Bond Interest	100,500	90,558	9,942
Office	600	-	600
Utilities/Storage	3,656	2,433	1,223
Insurance	<u>-</u>	<u>1,750</u>	<u>(1,750)</u>
<u>Total Expenditures</u>	<u>270,982</u>	<u>332,645</u>	<u>(61,663)</u>
Revenues Over (Under) Expenditures	<u>(7,000)</u>	398,326	
<u>Items to Reconcile to Net Income (GAAP)</u>			
Contributed Capital		-	
Reserve		50,000	
Amortization		(3,075)	
Bond Principal		60,000	
Capitalized Interest		90,558	
Capital Outlay		87,691	
Interest		<u>(2,051)</u>	
<u>Net Income - GAAP Basis</u>		<u>681,449</u>	