

Little Thompson Water District
Management Discussion and Analysis
For the Year Ended December 31, 2007

The discussion and analysis is designed to provide an analysis of the District's financial condition and operating results and to also inform the reader on District financial issues and activities.

The Management Discussion and Analysis (MD&A) should be read in conjunction with the District's basic financial statements (beginning on page 11).

2007 Highlights - Business-Type Activities

In 2007, net assets were \$76,671,260 or an increase of \$2,962,478 (4.02%) when compared to 2006.

Total operating revenues increased to \$5,656,366 during 2007, which was \$101,847 or 1.83% more when compared to 2006.

Total operating expenses were \$4,959,576 or an increase of \$447,958 (9.93%) in 2007 when compared to 2006.

Net capital assets were \$101,559,488 in 2007 compared to \$98,323,423 in 2006 for an increase of \$3,236,065 or 3.29%.

Long-term debt decreased to \$31,269,200 during 2007 which was \$318,574 or 1.01% less when compared to 2006.

Using this Annual Report

The financial statements included in this annual report are those of a quasi-municipal corporation and a political subdivision of the State of Colorado engaged only in a business-type activity. As an enterprise fund, the District's basic financial statements include:

Statements of Net Assets - reports the District's current financial resources (short-term spendable resources) with capital assets and long-term obligations. (See pages 11-12).

Statements of Revenues, Expenses and Changes in Fund Net Assets - reports the District's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions. (See page 13).

Statements of Cash Flows - reports the District's cash flows from operating activities, investing, capital and non-capital activities. (See pages 14-15).

**Statement of Net Assets
December 31**

| | 2007 | 2006 |
|---|--------------------|--------------------|
| Current Assets | 2,914,215 | 3,353,937 |
| Restricted Assets | 2,616,542 | 4,214,679 |
| Capital Assets | 101,559,488 | 98,323,423 |
| Other Assets | 363,197 | 382,084 |
| | <u>107,453,442</u> | <u>106,274,123</u> |
| | | |
| Current Liabilities | 2,172,354 | 3,395,785 |
| Long-Term Debt | 28,609,828 | 29,169,556 |
| | <u>30,782,182</u> | <u>32,565,341</u> |
| | | |
| <u>Net Assets</u> | | |
| Invested in Capital Assets, Net of Related Debt | 71,475,286 | 67,931,259 |
| Restricted: | | |
| Debt Services | 1,314,337 | 2,413,115 |
| Bond and Loan Reserves | 1,302,205 | 1,250,000 |
| Construction Funds | - | 551,564 |
| Unrestricted | <u>2,579,432</u> | <u>1,562,844</u> |
| | <u>76,671,260</u> | <u>73,708,782</u> |

The net assets of the District increased to \$76.7 million during 2007, a \$3.0 million increase over 2006. Capital assets increased \$3.2 million in 2007 over 2006 due primarily to costs related to the expansion of Carter Lake Filter Plant and the construction of the Dry Creek Reservoir.

Long-term debt changed as a result of the retirement of \$1,276,131 in principal on the 1999, 2002, and 2004 Revenue Bonds and the 1992 and 1998 Loan Payable to the Colorado Water Resource and Power Development Authority. Also, the District borrowed \$957,557 from the Colorado Water Conservation Board and the Colorado Water Resource and Power Development Authority.

**Review of Revenues
Year Ending December 31**

| | 2007 | 2006 |
|-----------------------------------|------------------|------------------|
| <u>Operating Revenues</u> | | |
| Water-Treated | 5,565,732 | 5,386,511 |
| Service and Other Revenue | 90,634 | 168,008 |
| | <u>5,656,366</u> | <u>5,554,519</u> |
| <u>Non-Operating Revenues</u> | | |
| Earnings on Investments | 242,358 | 244,699 |
| Miscellaneous Income | 102,748 | 117,950 |
| Unrealized Gain on Investments | 2,625 | 2,829 |
| | <u>347,731</u> | <u>365,478</u> |
| <u>Total Revenues</u> | <u>6,004,097</u> | <u>5,919,997</u> |

Water sales were \$5,565,732 or 93.7% of budget due to the explosion at the filter plant and water restrictions that were imposed for a portion of the year. Earnings on investments were down \$2,341 from 2006 due to fewer funds being invested. Total revenues on a non-GAAP basis were down \$4,493,191 from 2006 primarily due to a decrease in contributed capital of \$4,503,200.

**Review of Expense
Year Ending December 31**

| | 2007 | 2006 |
|--|-------------------------|-------------------------|
| <u>Operating Expenses</u> | | |
| Distribution | 2,529,890 | 2,223,337 |
| Administration and General | 672,396 | 665,810 |
| Engineering | 515,912 | 419,430 |
| Depreciation | <u>1,241,378</u> | <u>1,203,041</u> |
| <u>Subtotal</u> | <u>4,959,576</u> | <u>4,511,618</u> |
| <u>Non-Operating Expenses</u> | | |
| Joint Venture Loss | 214,309 | 141,412 |
| Interest Expense | 958,007 | 730,218 |
| Realized Loss on Replacement of Property Assets | 2,459 | 1,265 |
| Amortization of Bond Issue Costs & Discounts | <u>18,887</u> | <u>12,434</u> |
| <u>Subtotal</u> | <u>1,193,662</u> | <u>885,329</u> |
| <u>Total Expenses</u> | <u><u>6,153,238</u></u> | <u><u>5,396,947</u></u> |

Operating expenditures, exclusive of depreciation, were \$10,339 over budget (100.28%) and \$409,621 more than 2006. Distribution costs increased by \$306,553 from 2006, this is primarily due to the increased costs of water assessments, salaries and benefits and maintenance and operations costs. Budget constraints held many costs even with the previous year. The District did not have to rent water during 2007. Administration and General expenses increased .99%. Depreciation also increased in 2007 by 3.1% or \$38,337 as a result of the completed projects.

**Capital Contributions and Transfers
Year Ending December 31**

| | 2007 | 2006 |
|-----------------------|------------------|------------------|
| Capital Contributions | <u>3,111,619</u> | <u>7,614,819</u> |

Tap sales were \$1,363,375 or 65.99% of budget and down \$244,213 from 2006.

In 2007, developers contributed \$1,421,561 in participation related to the funding of 2007 projects throughout the District and \$288,000 for the transfer of 32 shares of CBT water to the District.

**Capital Assets (Net of Depreciation) and Debt Administration
December 31**

| | 2007 | 2006 |
|---------------------------|-------------------|-------------------|
| Land & Easement Rights | 359,391 | 359,391 |
| Water Rights | 30,835,794 | 30,484,915 |
| Distribution System | 42,614,240 | 41,461,636 |
| Building and Improvements | 486,556 | 508,594 |
| Equipment and Vehicles | 434,653 | 399,180 |
| Construction in Progress | <u>21,865,252</u> | <u>19,931,797</u> |
| <u>Total</u> | <u>96,595,886</u> | <u>93,145,513</u> |

Major additions in 2007 were:

The acquisition of 32 shares of CBT water for \$288,000 and 2 shares of Handy Ditch stock for \$60,000.

Total Capital expenditures were \$4,694,211 or 49.25% of budget and were \$17,399,277 less than the previous year due primary to the Carter Lake Filter Plant expansion and the construction of the Dry Creek Reservoir during 2006.

Debt and Other Financial Obligations

The District's debt was \$31,269,201 and \$31,587,774 in 2007 and 2006 respectively. The decrease was due to the issuance of \$957,557 in debt with the Colorado Water Conservation Board and the retirement of \$1,276,131 of debt from prior years.

Further debt information is available in the notes (see pages 21-24).

The following table sets forth a summary of the District's capital projects between 1998 and 2007.

Significant Capital Projects Summary (Funded Projects) 1998-2007

| | Year | Cost |
|------------------------------------|------|-------------------|
| Whipkey Extension | 1998 | 103,146 |
| WCR 36 | 1998 | 184,560 |
| WCR 15 at Little Thompson River | 1998 | 47,222 |
| Wilson 12" Line | 1998 | 408,654 |
| Twin Mounds 24" line | 1998 | 190,242 |
| Bonnell West Pump | 1998 | 27,049 |
| WCR 13 at Little Thompson River | 1998 | 44,977 |
| North Transmission Line, Phase I | 1998 | 1,409,349 |
| WCR 54 at Greeley Canal | 1998 | 32,490 |
| LCR 21 | 1998 | 407,790 |
| WCR 3 at Little Thompson River | 1999 | 32,446 |
| Bluffs - Homer Road | 1999 | 78,325 |
| WCR 34 15-17 | 1999 | 56,000 |
| Wagon Wheel Pump Station | 1999 | 48,634 |
| Campion PRV Upgrade | 1999 | 36,645 |
| Twin Mounds Tank | 1999 | 1,809,385 |
| WCR 15 & WCR 34 | 1999 | 30,757 |
| Sedona Hills Pump Upgrade | 1999 | 39,538 |
| North Transmission Line, Phase I | 1999 | 1,771,053 |
| Arkins Pump Station | 2000 | 419,717 |
| North Transmission Line, Phase II | 2000 | 2,592,195 |
| Milliken 4" Water Line | 2000 | 27,329 |
| Podtburg 12" Extension | 2000 | 72,051 |
| North Transmission Line, Phase III | 2000 | 2,574,104 |
| WCR 34 & 17 | 2000 | 33,681 |
| 7 & 46 Master Meter Vault | 2001 | 172,352 |
| Arkins, phase II | 2001 | 352,929 |
| 42" North Transmission Line | 2001 | 6,736,631 |
| Boyd Lake Avenue | 2002 | 88,147 |
| Taft Relocation | 2003 | 38,147 |
| Rainbow Lakes Vault | 2003 | 48,415 |
| Mead 5 th Street | 2003 | 97,685 |
| WCR 13 | 2003 | 29,440 |
| Johnstown Vault | 2004 | 25,923 |
| LCR 29 Vault | 2004 | 59,870 |
| West 32 nd Street | 2004 | 36,683 |
| Mariana Pump Station | 2004 | 394,912 |
| Various Developer Improvements | 2004 | 1,772,208 |
| LCR 27 @ LCR 24 | 2006 | 118,079 |
| WCR 13 12" Line | 2006 | 562,928 |
| LCR 21 @ South Side Ditch | 2006 | 27,115 |
| Various Developer Improvements | 2006 | 521,079 |
| 3 District Vehicles | 2006 | 75,246 |
| District Water Mains Improvements | 2006 | 3,015,461 |
| CIP-Carter Lake Filter Plant | 2006 | 7,207,241 |
| CIP-Dry Creek Reservoir | 2006 | 8,813,267 |
| 2 District Vehicles | 2007 | 64,999 |
| Trailer with Generator | 2007 | 45,908 |
| Buckhorn Ranch RLVP | 2007 | 1,150,000 |
| Mariana 12" Line | 2007 | 568,392 |
| Grand Total | | <u>44,500,396</u> |

Contracts and Agreements

The District is party to several contracts and cooperative agreements concerning the transfer and sale of water and providing emergency assistance as requested. The District has agreements with the cities of Loveland, Johnstown, Berthoud, Berthoud, Greeley, and Milliken and the Central Weld County, FortCollins/Loveland, Long's Peak, and North Carter Lake Water Districts.

Economic and Other Factors

Overall, the District has shown increases in water revenues and tap sales as a result of water rate and tap fee management utilizing a forecasting program to develop rates and fees that will ensure the District will continue as a financially sound entity. Continued growth throughout the District and in Larimer, Weld, and Boulder counties contribute to these increases as well. Operating expenses have been consistent over the past few years and reflect only limited increases. Construction costs have increased significantly due to needed system improvement but will assure future increased water revenues and tap sales to be generated as well as adequate storage and fire protection.

The annual rate and extent of future growth and development within the District will be materially affected by management, zoning and land use procedures and policies established by Larimer County, Weld County, and Boulder County. Each of these governmental entities control growth in the areas under their governments and the policies and procedures are outside the control or influence of the District.

Financial Contact

The District's financial statements are designed to present users (customers, citizens, creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information please contact the District Business Manager, Little Thompson Water District, 835 E. Hwy. 56, Berthoud, CO 80513 or at (970)532-2096.