

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cucharas Sanitation and Water District

for the year ending December 31, 2008

As management of the Cucharas Sanitation and Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with the letter of transmittal and basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- Cucharas Sanitation and Water District's assets exceeded liabilities by \$7.958 million (net assets) at the end of 2008. Of this amount, \$1,888,375 may be used to meet the government's ongoing obligations to citizens and creditors, including construction purposes. The remaining \$6,069,698 is capital assets or is restricted by law.
- Total liabilities, including long term debt, decreased at 2008 year-end by \$493,128 from total 2007 liabilities.
- The District continues to enjoy a positive Net Income (GAAP Basis), primarily due to the 2006 Water and Sewer service rate increases and management's efforts to cut operating costs where ever possible.
- The Pinehaven Project, which included installation of a sewer collection system throughout the subdivision and an upgrade of the water distribution system throughout the subdivision, was completed in 2008. As homeowners connect to the sewer system their tap fees are replenishing the District's Sewer Construction funds used to fund the Project.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements contain three components: 1) government-wide financial statements, 2) notes to the financial statements, and 3) budgetary comparisons.

Government-wide Financial Statements. The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The *Statement of Net Assets* presents information on all of the District'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 District's financial position is improving or deteriorating. It should be noted that other non-financial factors must be considered when assessing the overall health of the District. These include measures of the quality of service that the District provides to the Cuchara community, general condition of the sewer and water systems and local economic variances.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the government's net assets changed during the 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 the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The *Statement of Cash Flows* reports receipts, cash payments and net changes in cash and cash equivalents resulting from operations, investing and capital and related financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during 2007.

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

Budgetary comparisons. Cucharas Sanitation and Water District adopts an annual appropriated budget for its operations. A budgetary comparison statement has been provided to demonstrate compliance with the adopted budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following condensed financial information derived from government-wide financial statements include comparisons with the fiscal year 2007.

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of December 31, 2008, assets exceeded liabilities by \$7,958,073. The District's net assets increased by \$213,555 between 2007 and 2008; depreciation expense of \$363,117 was the major factor in this disparity. The following table provides a summary of the District's net assets at December 31, 2008 and December 31, 2007.

	2008	2007
Assets		
Current and other assets	\$ 1,869,340	\$ 2,606,286
Capital assets	<u>9,094,210</u>	<u>8,636,837</u>
<i>Total Assets</i>	<i>\$10,963,550</i>	<i>\$11,243,123</i>
Liabilities		
Current and other liabilities	\$ 351,424	\$ 540,895
Long-term liabilities	<u>2,654,053</u>	<u>2,957,710</u>
<i>Total Liabilities</i>	<i>\$3,005,477</i>	<i>\$ 3,498,605</i>
Net Assets		
Invested in capital assets, net of related debt	\$ 6,066,798	\$ 5,299,480
Restricted for TABOR Reserve	2,900	2,500
Restricted expendable - Construction & Debt	970,080	1,685,478
Unrestricted	<u>918,295</u>	<u>757,060</u>
Total Net Assets	\$7,958,073	\$7,744,518

The most significant portion of the District's net assets (83%) reflects its investment in capital assets. These assets include land and easements, the office building, three water treatment and one wastewater treatment plants, the distribution and collection systems including the new Pinehaven water and sewer systems, furniture, and equipment. These capital assets are used to provide services to citizens; consequently, they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. The District's debt is comprised of General Obligation Refunding Bonds, Series 2004, a lease-purchase for new water meters system-wide, a Water Revenue Enterprise Refunding Note, and two Colorado Water Resources and Power Development Authority loans.

\$1,065,996 of Cucharas Sanitation and Water District's net assets represents assets which may be used to meet the District's ongoing obligations to citizens and creditors.

The following table indicates the changes in net assets in 2008 and 2007:

	2008	2007
Operating Revenues:		
Service Fees	\$ 668,526	\$ 661,237
Property and specific ownership taxes	396,705	392,738
Investment earnings	35,104	53,388
Other operating revenue	<u>2,962</u>	<u>9,763</u>
<i>Total Operating Revenues</i>	<i>\$ 1,103,297</i>	<i>\$ 1,117,126</i>
Operating Expenses:		
Personnel & Director's Fees	\$ 333,358	\$ 331,096
Operations and maintenance	218,337	195,416
Depreciation	363,117	342,429
Other Operating Expense	<u>167,430</u>	<u>151,226</u>
<i>Total Operating Expenses</i>	<i>\$ 1,082,242</i>	<i>\$ 1,020,167</i>
Capital Contributions – Tap Fees	\$ 172,500	\$ 63,000
Capital Contribution – Grants	<u>\$ 20,000</u>	<u>\$ 360,000</u>
Increase in Net Assets	\$ 213,555	\$ 519,959

Key elements of the increase in Net Assets are as follows:

- Revenues from water and sewer service fees remained stable, with a small increase due to additional customers coming on line both through new home construction and new sewer connections in the Pinehaven subdivision.
- Interest income decreased by \$18,284 from 2007 primarily due to the lower rates offered at area banks.
- Depreciation expense increased by 6% due to new assets (the Pinehaven collection and distribution systems) coming online.
- While 2008 Personnel costs increased only .7% over 2007, all other operating costs increased by 11.7%. While Insurance costs showed a significant drop in 2008 (\$6,842) and Legal and Audit expense dropped slightly, the other operating costs of the district showed uniform increases.

BUDGETARY HIGHLIGHTS

The District's budget is prepared according to Colorado statutes. In December of 2007, the Board of Directors appropriated \$1,792,288 for 2008 expenditures. The budget was not amended during the calendar year.

The following table compares budget to actual in 2008 and 2007:

	2008		2007	
	Budget	Actual	Budget	Actual
Service Fees	\$ 680,380	\$ 668,526	\$ 646,207	\$661,237
Other Operating Revenue	1,214,645	627,271	1,630,705	878,889
Expenditures	(1,377,820)	(1,389,146)	(1,364,842)	(1,631,633)
Net Debt Service & Proceeds	(434,066)	(434,067)	(382,343)	(383,350)
Contingency	(13,129)	0	(1,965,244)	0

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Cucharas Sanitation and Water District's investment in capital assets (net of depreciation) at December 31, 2008, totals \$9,094,210. This investment includes the following (net depreciation):

	2008	2007
Land and easements	\$ 150,833	\$ 121,334
Utility Plant – System	8,681,093	8,245,546
Equipment	119,855	126,390
Office Building	100,895	102,037
Construction in Progress	<u>41,530</u>	<u>41,530</u>
Total Capital Assets	\$9,094,210	8,636,837

Major capital asset events during 2008 included the following:

- Completion of the Pinehaven distribution system upgrade.
- Completion of the Pinehaven collection system installation.
- Purchase of a new work truck.
- Construction of a pole barn on District property at the Resort.
- A new office phone system.
- Installation of a new computer system for the Resort water system.

Additional information on the District's capital assets can be found in Note 2 of this report.

Debt Administration. At December 31, 2008, Cucharas Sanitation and Water District owed \$2,973,332 in long term debt. The following is a listing of District debt at December 31, 2008 and December 31, 2007:

	12/31/2008	12/31/2007
General Obligation Refunding Bonds, Series 2004	\$ 1,405,000	\$ 1,615,000
Water Revenue Enterprise Refunding Note	548,420	585,420
Lease Purchase – Water Meters	85,235	111,696
CWR&PDA Loan	988,757	1,025,241
Deferred Refunding	<u>(54,080)</u>	<u>(69,702)</u>
Total Long-Term Debt	\$ 2,973,332	\$ 3,267,655

All debts continue to be paid in a timely manner using money set aside from operating income for this purpose.

Additional information on Cucharas Sanitation and Water District's debt can be found in Note 7.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cucharas Sanitation and Water District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this of for additional financial information should be addressed to the General Manager, 16925 State Highway 12, La Veta, Colorado 81055.