Gunlock Special Service District

Year Ended December 31, 2005
Financial Statements

A COMPONENT UNIT OF WASHINGTON COUNTY, UTAH

GUNLOCK SPECIAL SERVICE DISTRICT
A COMPONENT UNIT OF WASHINGTON COUNTY, UTAH

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SAVAGE ESPLIN & RADMALL, PC

Certified Public Accountants • Financial Advisors

Members of the Board
Gunlock Special Service District
Gunlock, Utah 84733

We have reviewed the financial statements of the business-type activities, which comprise the entity's basic financial statements, of Gunlock Special Service District, a component unit of Washington County, Utah as of and for the year ended December 31, 2005, in accordance with statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Gunlock Special Service District.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The management's discussion and analysis on pages 2-6 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Savage Esplin & Radmall PC

Savage Esplin & Radmall, PC

August 4, 2006

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GUNLOCK SPECIAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
2005

As management of the Gunlock Special Service District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the reviewed financial statements.

History and Background of District

Gunlock Special Service District was created in 1997 by the Washington County Commission pursuant to the terms and provisions of the Utah Code Annotated, 1953, as amended, Utah Special Service District Act, Section 11-23-1 and 29. The District operates under a Board of Directors form of Government and is a component unit of Washington County, Utah. The Board's Authority is derived from the County Commission, who has ultimate responsibility for the District.

The Board consists of five board members, each of whom is elected. The primary purpose of the District is to provide culinary water service to those who reside in the District's service area.

Financial Highlights

- Total revenues from business activities during 2005 were $36,917.
- Total expenditures from business activities during 2005 were $38,960.
- Non-operational revenues and expenses for 2005 were as follows:
  a. Grants from the State of Utah and FEMA - $143,273
  b. Contribution Income - $84,938
  c. Interest Income - $8,252
  d. Other Income - $4,787
  e. Flood Damage Repair Expenses - $100,977
- Net assets increased during 2005 by $138,230. Change in net assets is detailed in the District's Financial Statements.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. Standard and acceptable accounting practices were followed in preparation of the financial statements. The purpose of the financial statements is to identify revenues and expenses resulting from business activities. The operating income, adjusted for depreciation, identifies the performance of the District. Certain key financial ratios taken from the Statement of Net Assets help identify financial strength and liquidity. Since the District is operated as an enterprise fund, there are no fund statements presented.

Reporting the District's Business Operations

The key financial statements provide the accounting from which reports herein are created. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets summarize the District's business operations for the year and provide a basis for assessing financial strengths and weaknesses. From the financial statements, trends are monitored and budgets are prepared for future years. These financial statements are prepared using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or payment is made.

GUNLOCK SPECIAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
2005

The primary business activity of the District is to provide culinary water to the residents of Gunlock. Incidental to the water system, the District also provides a city park and street lights.

Reporting the District's Significant Fund

The District maintains one type of proprietary fund, an enterprise fund. The *Enterprise fund* is used to report the same functions presented as *business-type activities* in government-wide financial statements. Enterprise funds reported using the accrual basis of accounting, which records expenses when they are incurred and records revenues when they are earned.

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 and fund financial statements.

The District as a Trustee

The District does not hold any funds or property in a trustee capacity.

Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $385,279 at the close of the most recent fiscal year.

Of the District's net assets (3.4%) reflects its investment in capital assets (e.g., land, building, equipment, and vehicles). The District uses these capital assets to provide services to residents of Gunlock consequently these assets are *not* available for future spending. The District's also has net assets of $157,296 or (40.8 %) restricted for the renewal and replacement of the water system.

The District's Key Financial Statements

GUNLOCK SPECIAL SERVICE DISTRICT'S
NET ASSETS

	2005
Current and other assets	205,869
Restricted assets	157,296
Capital assets	129,988
Total assets	493,153
Long-term liabilities outstanding	105,000
Other liabilities	2,874
Total liabilities	107,874
Invested in capital assets, net of related debt	129,988
Restricted	157,296
Unrestricted	97,995
Total net assets	385,279

GUNLOCK SPECIAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
2005

Net assets of the District are $385,279. The unrestricted net assets are available and can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. These net assets are used to finance the continuing operations of providing culinary water to the residents of Gunlock. The Districts net assets increased by $138,230 during the current fiscal year. This increase was a result of receiving State and Federal Grants and private contributions to cover the cost of repairs to the old water system and the construction of a new water system. The expenditures for the new water system were not made during 2005.

Changes in Net Assets. Key elements of the growth of net assets are as follows:

	2005
Revenues:	
Business Activities	
Water Tap, Use	26,070
Water Tap, Non use	9,576
Late Charges & Other	1,271
Non-Operating revenues:	
Grants	143,273
Contributions	84,938
Interest	8,252
Miscellaneous	4,787
Total revenues	278,167
Expenses:	
Depreciation	2,444
Other Operating Expenses	36,516
Flood Damage Repairs	100,977
Total expenses	139,937
Increase in net assets	138,230
Net assets – Beginning	247,049
Net assets – Ending	385,279

The District's operational goal for future years is to continue to strive to run the District's operations from charges from services. Other governmental assistance, particularly in the form of grants will be required for upgrades and improvements.

Cash Sources and Uses

Beginning cash balance as of January 1, 2005	$ 118,251
Change in Net Assets	138,230
Depreciation (Source of Cash)	2,444
Decrease in Accounts Receivable (Source of Cash)	708
Increase in Fixed Assets (Use of Cash)	(8,400)
Increase in Accounts Payable	2,874
Long-Term Debt Increase (Source of Cash)	105,000
Total Increase in Cash	$ 240,856
Ending Cash Balance as of December 31, 2005	$ 359,107

Use of all funds are controlled and authorized by the District's Board of Directors. The Board of Directors prepare and approve annual budgets. All expenses and capital expenditures are approved by the Board of Directors. When the budget is approved it is forwarded to Washington County and to the State Auditor as required by Utah State Law.

Business Activities and Purposes

The District's primary business activity is providing culinary water to the residents of Gunlock. The charge is based on lot ownership for connected and non-connected lots. The District also provides a city park and street lights. The District is also active in securing grants and loans to improve and update their water system and it is anticipated that the system will be rebuilt in 2006.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets as of December 31, 2005, amounts to $129,988 (net of accumulated depreciation).

GUNLOCK SPECIAL SERVICE DISTRICT'S CAPITAL ASSETS

	2005
Land and improvements	108,759
Equipment	852
Water System	103,091
Accumulated depreciation	(82,714)
Total	129,988

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of $105,000. This total amount is revenue bond debt.

Gunlock Special Service District's Debt

	2005
UT State Dept of Environmental Quality Loan	105,000

The Utah State Department of Environmental Quality Loan is non interest bearing and is payable over 20 years in annual installments of $5,000 except in years 2017, 2019, 2021, 2023 and 2025 when the payments will be $6,000.

GUNLOCK SPECIAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
2005

Economic Forcast and Future Budget

The District is aggressively seeking State grants and loans to upgrade their water system. It is anticipated that the District will receive $677,000 in grants and loans in 2006 to accomplish the upgrade. The District has budgeted a total of $751,978 in revenue and expenses for the year 2006.

Requests for information

This financial report is designed to provide our community and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Accountants, Lang and Company at 1240 E 100 South #2, St George, Utah 84790.

GUNLOCK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Net Assets - Proprietary Fund
As of December 31, 2005

	Enterprise Fund Water Services
Assets:	
Current Assets	
Cash	$ 201,811
Receivables (net of allowance)	4,058
Total Current Assets	205,869
Non-Current Assets	
Restricted cash	157,296
Capital Assets	
Land	108,759
Equipment	852
Water System	103,091
Accumulated depreciation	(82,714)
Total Capital Assets	129,988
Total Non-Current Assets	287,284
Total Assets	$ 493,153
Liabilities:	
Current Liabilities	
Accounts Payable	$ 2,874
Accrued Liabilities	0
Total Current Liabilities	2,874
Non-Current Liabilities	
Due within one year	5,000
Due in more than one year	100,000
Total Non-Current Liabilities	105,000
Total Liabilities	$ 107,874
Net Assets:	
Invested in Capital Assets, net of related debt	$ 129,988
Restricted for:	
Renewal and Replacement	157,296
Unrestricted	97,995
Total Net Assets	$ 385,279
Total Liabilities and Fund Equity	$ 493,153

See accompanying notes and accountants' review report.

GUNLOCK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Revenues, Expenses and Changes in
Net Assets - Proprietary Fund
Year Ended December 31, 2005

	Enterprise Fund Water Services
Operating Revenues	
Water Taps, Use	26,070
Water Taps, Nonuse	9,576
Late Charges & Other	1,271
Total Operating Revenues	36,917
Operating Expenses	
Accounting Fees	3,600
Certified Operator Fees	7,800
Depreciation	2,444
Election	709
Insurance	2,841
Legal Fees	500
Miscellaneous	352
Office & Postage	685
Repairs & Maintenance	8,348
Training Fees & Mtgs	705
Utilities	3,202
Water System Expenses	6,811
Water Testing	963
Total Operating Expenses	38,960
Operating Loss	(2,043)
Non-Operating Revenue/(Expense)	
Grant Revenues	143,273
Contributions	84,938
Interest Income	8,252
Street Lights Income	4,506
Other Income	281
Flood Damage Repairs	(100,977)
Total Non-Operating Revenue/(Expense)	140,273
Change in Net Assets	138,230
Total Net Assets - Beginning	247,049
Total Net Assets - Ending	$ 385,279

See accompanying notes and accountants' review report.

GUNLOCK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Cash Flows
Proprietary Fund
As of December 31, 2005

Cash Flows From Operating Activities	
Cash received from customers, service fees	$ 37,625
Cash paid to suppliers	(33,642)
Net Cash (Used)/Provided by Operating Activities	3,983
Cash Flows From Noncapital Financing Activities	
Street Lights Income	4,506
Other Income	281
Net Cash Provided by Noncapital Financing Activities	4,787
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	(8,400)
Grant Income	143,273
Contributions	84,938
Utah State Department of Environmental Quality Loan	105,000
Flood Damage Repairs	(100,977)
Net Cash Used by Capital and Related Financing Activities	223,834
Cash Flows From Investing Activities	
Interest on investments	8,252
Net Increase in Cash and Cash Equivalents	240,856
Cash and cash equivalents at beginning of year	118,251
Cash and Cash Equivalents at End of Year	$ 359,107

See accompanying notes and accountants' review report.

GUNLOCK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Cash Flows (Continued)
Enterprise Fund
As of December 31, 2005

Reconciliation of operating income to net cash provided by operating activities:		
Net Income from Operations	$	(2,043)
Adjustements to reconcile net income to net cash provided by operating activities:		
Depreciation		2,444
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables		708
Increase/(Decrease) in payables		2,874
Net Cash Used From Operating Activities	$	3,983

See accompanying notes and accountants' review report.

NOTE 1 Summary of Significant Accounting Policies

The accounting and reporting policies of the Gunlock Special Service District (The District) conform with generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Reporting Entity

The District was organized as a Special Service District pursuant to the provisions of the Utah Special Service District Act, Utah Code Annotated, Sections 11-23-1 to 29 (1953) as amended, and Article XIV, Section 8 of the Utah State Constitution in 1997, by the Washington County Commission to provide culinary water services to those who reside in the Gunlock, Utah area. The District operates under a Board of Directors consisting of five members, each of whom was elected. The Board's authority is derived from the County Commissioners who have ultimate responsibility for the District.

Basis of Presentation – Fund Accounting

The accounts of the District are arranged on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The District has only one fund, which is an enterprise fund. The District's operating fund is an enterprise fund because the users are charged a fee for the services provided.

Basis of Accounting

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of financial statements is on major funds rather than on reporting funds by type. Each major fund is presented in a separate column. The only fund of the District is an enterprise fund. Revenues and expenses are recognized using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred. The District applies all applicable FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Budgets and Budgetary Accounting

Annual budgets are prepared and adopted by the Board on or before December 31 for the next calendar year in accordance with State law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to the adoption of the final budget, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised under State law, at the

department level. Budget amendments are required to increase expenditure budgets. The Enterprise Fund budget is prepared using the accrual basis of accounting.

Encumbrances

The District does not employ encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

Net Assets

Net Assets is the difference between asset and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by other governments, creditors, or grantors.

The District's policy is to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. Fixed assets used in the operation of the District, along with the associated debt, are included in the District operation fund, which is a proprietary fund.

The assets associated directly with the operation of the Fire District are capitalized at their cost. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

	Useful Life
Vehicles	5-10 years
Equipment	5 years
Furniture and Fixtures	5 years
Land	Not Depr

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The District's capitalization threshold is $500-$1,000.

Revenue

The District defines operating revenues as those revenues that the District receives directly from those people to whom they provide the service. For example, culinary water fees would be considered operating revenues. All other revenues that do not qualify as operating revenues are considered non-operating revenues.

Inventory

The District's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Risk Management

The District maintains insurance for general liability, auto liability, employee dishonesty and worker's compensation through the Utah Local Government's Insurance Trust, and Western Surety, respectively.

NOTE 2. Cash and Investments

The District maintains a cash and investment pool that includes several cash accounts and CD's and two investment accounts, which are available for use by all funds.

The District's deposit and investment policy is to follow the Utah Money Management Act. However, the District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

Utah State law requires that District funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public

funds which a qualified depository may hold in order to minimize the risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of December 31, 2005, the District had the following deposits and investments:

Deposits and Investment Type	Fair Value
Cash on Deposit	$ 158,793
State Treasurer's Investment Pool	200,314
	$359,107

Interest rate risk. The District manages its exposure to declines in fair value by only investing in the Utah Public Treasurer's Investment Fund.

Credit risk. As of December 31, 2005, the Utah Public Treasurer's Investment Fund was unrated.

Concentration of Credit Risk. The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial Credit Risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure the District's deposits may not be returned to it. As of December 31, 2005 $58,793 of the $158,793 of deposits was exposed to custodial credit risk.

Custodial Credit Risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in possession of an outside party. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

NOTE 3. Receivables

Receivables consisted of the following at December 31, 2005:

Culinary Water Fees	$	4,058
Less Allowance		-
Total	$	4,058

NOTE 4. Fixed Assets

The following table summaries the changes to fixed assets during the year ended December 31, 2005.

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Land	$ 103,759	$ 5,000		$ 108,759
Equipment	852			852
Water System	99,691	3,400		103,091
Total	$ 204,302	$ 8,400	$ -	$ 212,702
Accumulated Depreciation	(80,270)	(2,444)		(82,714)

NOTE 5. Long-term Debt

Long-term debt at December 31, 2005 is comprised of the following:

Water Revenue Bonds, Series 2005	$105,000
Less: Current Portion	(5,000)
Total Long-term Debt	$100,000

The annual payments to the State of Utah, Department of Environmental Quality, Drinking Water Board required to amortize the long-term debt outstanding at December 31, 2005 are as follows:

Period Ending December 31	Principal	Total
2006-2016	5,000	55,000
2017	6,000	6,000
2018	5,000	5,000
2019	6,000	6,000
2020	5,000	5,000
2021	6,000	6,000
2022	5,000	5,000
2023	6,000	6,000
2024	5,000	5,000
2025	6,000	6,000
		105,000

The Water Revenue Bonds are payable with no interest as long as installments are made timely.

NOTE 6. Restricted Net Assets

Restrictions are used to indicate that a portion of the net assets is not available for appropriation or expenditure, or is legally segregated for a specific future use. The restricted net assets are as follows:

	Balance at 12/31/2005
Restricted for Repair and Replacement	157,296
Total	$ 157,296

NOTE 7. Related Party Transactions

A member of the board of directors of the District contributed $10,000 to help with emergency repairs to the water system and river channel work that became necessary as a result of the floods of 2005.

NOTE 8. Subsequent Events/Commitments

The District is committed to the construction of a new water system including new lines and a 200,000 gallon water tank. The estimated cost of construction is $760,000. The funding for construction is projected to be as follows:

CDBG Grant received in 2006	$150,000
DWB Grant (Projected to be received in 2006)	86,000
DWB Loan (Projected to be received in 2006)	263,000
Loan Payable over 20 years @ 3.34% Interest	
DWB Grant & Loan (Carryover from 2005)	149,000
District Commitment	112,000
Total	$760,000