TWIN CREEKS
SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Financial Statements

December 31, 2005

TWIN CREEKS
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INDEPENDENT AUDITORS' REPORT

Honorable Administrative Board Members
Twin Creeks Special Service District
Heber City, Utah

We have audited the accompanying financial statements of Twin Creeks Special Service District, a component unit of Wasatch County, as of and for the year ended December 31, 2005, which collectively comprise the District's financial statements as listed in the table of contents. These financial statements are the responsibility of Twin Creeks Special Service District's management. 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 of America and the standards applicable to financial audits contained in *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 financial position of Twin Creeks Special Service District as of December 31, 2005, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2006 on our consideration of Twin Creeks Special Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That

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report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages MDA-1 through MDA-6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC
CERTIFIED PUBLIC ACCOUNTANTS

May 25, 2006

TWIN CREEKS
SPECIAL SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Twin Creeks Special Service District, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the year ending December 31, 2005. Please read it in conjunction with the District's financial statement and additional information that we have furnished in the Independent Auditors' report.

FINANCIAL HIGHLIGHTS

- The District's total net assets increased from $ 6,984,954 to $ 8,057,194 primarily due to water rights acquired along with additional water and sewer lines. Accounts Receivable has a higher balance than the previous year. Restricted Cash and Cash Equivalents has a lower balance mainly due to the fluctuation in uses of impact fees.

- The District's operating expenses increased in comparison to 2004 by $ 106,547 due to normal operations.

- The District's operating revenues decreased in comparison to 2004 by $ 882,346. The decrease in revenues is due to the $ 960,000 water reserves sold to Suburban Land Reserve in 2004 and no water reserve sales in 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this Management's Discussion and Analysis report, the Independent Auditors' Report and the financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about the District's activities. The Statement of Net Assets includes all of the District's assets and liabilities, and provides information about the nature and amounts of investments and resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its fees and other charges, and to determine its profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financial activities; and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

TWIN CREEKS
SPECIAL SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the District and the changes in them. The District's net assets, or the difference between assets and liabilities, is one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets will be one indicator of whether its financial health is improving or deteriorating. However, in the future one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

NET ASSETS

Table A-1
Statement of Net Assets
2005

	2005	2004	Dollar Change	Total Percent Change
Current and Other Assets	$ 402,558	$ 443,077	$ (40,519)	(10.0)
Noncurrent Assets	2,075,239	2,609,235	(533,996)	(25.7)
Capital Assets	10,405,746	9,926,391	479,355	4.6
Total Assets	$ 12,883,543	$ 12,978,703	$ (95,160)	(0.7)
Long-term Liabilities	$ 4,141,323	$ 4,686,879	$ (545,556)	(13.2)
Other Liabilities	685,026	1,306,870	(621,844)	(90.8)
Total Liabilities	$ 4,826,349	$ 5,993,749	$(1,167,400)	(24.2)
Invested in Capital Assets, Net of Related Debt	$ 7,056,890	$ 6,340,900	$ 715,990	10.1
Restricted	900,873	1,182,803	(281,930)	(31.3)
Unrestricted (deficit)	99,431	(538,749)	(638,180)	(641.8)
Total Net Assets	$ 8,057,194	$ 6,984,954	$ 1,072,240	13.3

As can be seen in table A-1 above, net assets increased from $6,984,954 to $8,057,194 in 2005. The increase in net assets was primarily due to water rights acquired and the addition of water and sewer lines. Long term liabilities decreased due to the decrease in bond principles.

TWIN CREEKS
SPECIAL SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET ASSETS (cont.)

Table A-2
Statement of Revenues, Expenses, and Changes in Net Assets
2005

	2005	2004	Dollar Change	Total Percent Change
Operating Revenues	$ 649,998	$ 572,344	$ 77,654	11.9
Gain on Sale of Asset		2,774	(2,774)	(100.0)
Nonoperating Water Reserve Revenue		960,000	(960,000)	(100.0)
Nonoperating Revenues	28,789	12,704	16,085	55.9
Total Revenues	678,787	1,547,822	(869,035)	(128.0)
Depreciation & Amortization Expense	160,208	147,350	12,858	8.0
Other Operating Expense	394,014	300,325	93,689	23.8
Nonoperating Expense	115,038	126,526	(11,488)	(10.0)
Total Expenses	669,260	574,201	95,059	14.2
Income (Loss) Before Capital Contributions	9,527	973,621	(964,094)	
Capital Contributions	1,062,713	1,760,575	(697,862)	
Changes in Net Assets	1,072,240	2,734,196	(1,661,956)	
Beginning Net Assets	6,984,954	4,250,758	2,734,196	
Ending Net Assets	$ 8,057,194	$ 6,984,954	$ 1,072,240	

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Table A-2 above, Capital Contributions of $1,062,713 was the main source of the increase in net assets of $1,072,240 in 2005.

BUDGETARY HIGHLIGHTS

The District adopts an annual budget by resolution following a public hearing. The budget includes proposed expenses and the means of financing them. The District's budget remains in effect the entire year and is subject to revision if necessary during and/or at the end of the year following a public hearing and adoption by the Governing Board by resolution. A quarterly budget comparison and analysis is presented to management and to the Governing Board for their review.

Table A-3
Budget vs. Actual
2005

	Budget	Actual	Variance
Revenues			
From Operations	$ 922,343	$ 649,998	$ (272,345)
Non-operating	12,000	28,789	16,789
Total	934,343	678,787	(255,556)
Operating Expenses			
Employee Costs	145,350	157,490	12,140
Insurance	15,000	14,235	(765)
Overhead & Management	46,000	41,393	(4,607)
Telephone and utilities	22,000	26,325	4,325
Legal, professional, and technical	44,000	114,434	70,434
Supplies, Materials, Services	38,150	35,641	(2,509)
Depreciation	140,000	154,513	14,513
Amortization	5,000	5,695	695
Other	4,500	4,496	(4)
Non Operating Interest	135,000	115,038	(19,962)
Total Expenses	595,000	669,260	74,260
Income Before Capital Contributions	$ 339,343	$ 9,527	$ (329,816)

The budget public hearing was held on December 1, 2004. The final 2005 budget was adopted by resolution on December 15, 2004 by the District's Governing Board. The final adopted budget for 2005 is represented in Table A-3 above. Actual expenses were over budget by $74,260 or the District was over budget by 12.5%. The major cause of being over budget was due to increased engineering costs showing under (Legal, professional, and technical), as shown above. No reimbursements was available to offset these out-of-pocket engineering costs incurred for the District.

TWIN CREEKS
SPECIAL SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

CAPITAL ASSETS

Table A-4
Capital Assets
2005

	2005	2004	Dollar Change	Total Percent Change
Office Equipment	$ 7,401	$ 7,401	$	
Vehicles	63,288	63,288		
Land	67,941	67,941		
Easements	141,085	141,085		
Equipment	134,035	134,035		
Water Treatment Plant	2,376,078	2,376,078		
Twin Creeks Water	3,828,389	3,260,750	567,639	14.8
Construction in Process	53,671	481,107	(427,436)	(796.4)
Sewer System	3,250,202	3,250,202		
Water System	1,543,225	1,049,560	493,665	32.0
Sub-total	11,465,315	10,831,447	633,868	5.5
Less: Accum. Depreciation	(1,059,569)	(905,056)	(154,513)	(14.6)
Net Capital Assets	$ 10,405,746	$ 9,926,391	$ 479,355	4.6

The District's net capital assets increased by $ 479,355 to $ 10,405,746 primarily due to the receipt of additional contributed water shares and additions to the District's water system.

DEBT ADMINISTRATION

Four (4) interest bearing accounts exist at the Utah Public Treasurer's Investment Fund for the District's restricted funds for the payment of bonds, the holding of Impact Fees, and construction retainage. These accounts held a balance of $938,515 at year end. A money market account has been set up for the Big Pole Estates Sewer Escrow Fund that held a balance of $81,040 at year end. Zion's Bank has set up two (2) trust accounts for reserve fees relating to bond payments that held a total balance of $23,626 at year end. The District currently has long-term debt in the form of two (2) assessment bonds for the sewer system in the amount of $861,000 and $463,000. There are three (3) revenue bonds for the District's water and sewer systems currently in the amount of $1,823,000, $70,000, and $145,000 at year end. There are no over due current and long-term liabilities and all current liabilities are paid within 30 days of invoice.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Governing Board and management considered many factors when setting the 2005 and 2006 budgets. One of those factors was the local economy and the impact our rates will have on the local population and developments within the District. The District is dedicated to practice water conservation, and commits itself to train and keep employees and management up-to-date on this subject. The training and knowledge the District receives in conserving and effectively using water and managing wastewater will be passed on to developers and water users. This knowledge is useful during the drought that currently exists within the State. The District has a five year Master Plan, a Capital Facilities Plan, and a Water and Sewer Impact Fee Study which are used in setting the fees within the District. The District has set fees in 2005 and 2006 that will be competitive with other governmental entities within Wasatch County and the State.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Twin Creeks Special Service District, 55 South 500 East #118, Heber City, Utah 84032.

FINANCIAL STATEMENTS

The financial statements include integrated sets of financial statements as required by accounting principles generally accepted in the United States of America. The statements include:

Fund financial statements

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

TWIN CREEKS
SPECIAL SERVICE DISTRICT
A COMPONENT UNIT OF WASATCH COUNTY

Statement of Net Assets
December 31, 2005
With Comparative Totals for December 31, 2004

ASSETS

	2005	2004
Current Assets		
Cash and cash equivalents (Notes 1 and 2)	$ 32,374	$ 93,884
Prepaid expenses		6,416
Accounts receivable (Note 1)	149,041	132,617
Current portion special assessment receivable (Note 6)	221,143	210,160
Total current assets	402,558	443,077
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 1 and 2)	1,003,085	1,234,474
Special assessment receivable (Note 6)	1,026,928	1,323,840
Capital assets (Notes 1 and 8)		
Land, water rights and construction in progress	4,091,086	3,950,883
Depreciable buildings and equipment, net	6,314,660	5,975,508
Bond issuance costs (net of $29,794 and $24,099 accumulated amortization, respectively)	45,226	50,921
Total noncurrent assets	12,480,985	12,535,626
Total assets	$ 12,883,543	$ 12,978,703

LIABILITIES

Current Liabilities		
Accounts payable	$ 105,066	$ 170,645
Payroll and related liabilities	7,897	9,377
Due to other governmental entities (Note 7)	4,388	547,923
Accrued interest payable	81,539	89,545
Current portion note payable (Note 4)	5,849	36,060
Current portion bonds payable (Note 4)	259,144	243,160
Current portion deferred special assessment revenue (Notes 4 and 6)	221,143	210,160
Total current liabilities	685,026	1,306,870
Noncurrent Liabilities		
Note payable (Note 4)	6,337	12,602
Bonds payable (Note 4)	3,102,856	3,345,340
Deferred special assessment revenue (Notes 4 and 6)	1,026,928	1,323,840
Accrued compensated absences (Note 1)	5,202	5,097
Total noncurrent liabilities	4,141,323	4,686,879
Total liabilities	$ 4,826,349	$ 5,993,749

NET ASSETS (NOTES 1 AND 10)

Invested in capital assets, net of related debt	$ 7,056,890	$ 6,340,900
Restricted for		
Contractual agreement	79,863	79,863
Capital projects	588,169	341,240
Debt service	232,841	761,700
Unrestricted (deficit)	99,431	(538,749)
Total net assets	$ 8,057,194	$ 6,984,954

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

TWIN CREEKS
SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended December 31, 2005

With Comparative Totals for the Year Ended December 31, 2004

	2005	2004
Operating Revenues		
Charges for services	$ 310,377	$ 257,001
Water reserve	16,621	960,000
Bond assessments	306,989	282,060
Miscellaneous	16,011	33,283
Total operating revenues	649,998	1,532,344
Operating Expenses		
Payroll and related benefits	157,490	145,981
Insurance	14,235	13,350
Management fee	41,393	43,663
Telephone and utilities	26,325	22,140
Legal, professional, and technical	114,434	28,223
Materials, supplies, and services	35,641	32,708
Contributions to other governmental entities		10,034
Miscellaneous	4,496	4,226
Depreciation	154,513	142,597
Amortization	5,695	4,753
Total operating expenses	554,222	447,675
Operating income	95,776	1,084,669
Nonoperating Revenues (Expenses)		
Gain on sale of asset		2,774
Interest revenue	28,789	12,704
Interest expense	(115,038)	(126,526)
Total nonoperating revenues (expenses)	(86,249)	(111,048)
Income (loss) before contributions	9,527	973,621
Capital Contributions		
State capital grant		14,913
Forgiveness of debt	38,500	311,500
Water shares	567,639	815,755
Infrastructure	6,635	350,182
Impact fees (net of discounts of $46,902 and $32,385, respectively)	449,939	268,225
Total capital contributions	1,062,713	1,760,575
Change in Net Assets	1,072,240	2,734,196
Net assets – beginning of year	6,984,954	4,250,758
Net assets – end of year	$ 8,057,194	$ 6,984,954

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

TWIN CREEKS
SPECIAL SERVICE DISTRICT
A COMPONENT UNIT OF WASATCH COUNTY

Statement of Cash Flows

For the Year Ended December 31, 2005

With Comparative Totals for the Year Ended December 31, 2004

	2005	2004
Cash Flows from Operating Activities		
Receipts from customers	$ 309,964	$ 261,498
Bond assessment receipts	306,989	282,060
Water reserve receipt	16,621	960,000
Payments to suppliers	(296,227)	(126,725)
Payments to employees	(158,865)	(142,507)
Net cash provided by operating activities	178,482	1,234,326
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	16,500	620,500
Cost of bond issuance		(32,600)
Capital contributions – impact fees	449,939	258,607
Capital contributions – forgiveness of debt	38,500	311,500
Capital contributions – state grant		14,913
Purchases of capital assets	(59,594)	(960,355)
Proceeds from sale of capital assets		6,024
Principal paid on capital debt	(822,471)	(655,000)
Interest paid on capital debt	(123,044)	(133,979)
Net cash used by capital and related financing activities	(500,170)	(570,390)
Cash Flows from Investing Activities		
Interest income	28,789	12,704
Net cash provided by investing activities	28,789	12,704
Net increase (decrease) in cash and cash equivalents	(292,899)	676,640
Balances – beginning of year	1,328,358	651,718
Balances – end of year	$ 1,035,459	$ 1,328,358
Cash and cash equivalents	$ 32,374	$ 93,884
Restricted cash and cash equivalents	1,003,085	1,234,474
	$ 1,035,459	$ 1,328,358
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 95,776	$ 1,084,669
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	154,513	142,597
Amortization	5,695	4,753
Contributions to other governmental entities		10,034
Contributed fees		(416)
Changes in assets and liabilities		
Increase in receivables	(16,424)	(28,370)
Decrease (increase) in prepaid expenses	6,416	(6,416)
(Decrease) increase in accrued liabilities	(67,494)	27,475
Net cash provided by operating activities	$ 178,482	$ 1,234,326
Noncash capital and related financing activities		
Capital contribution of water shares	$ 567,639	$ 815,755
Capital contribution of infrastructure	6,635	350,182
Contribution of impact fees to other governmental entities		9,618
Purchase of water rights with note payable		542,995
Purchase of sewer and water line with note payable		31,114
Purchase of vehicle with note payable		17,548

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Notes to Financial Statements

The notes to the financial statements are included to provide information that is essential to a user's understanding of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements and notes are representations of Twin Creeks Special Service District's management, which is responsible for their integrity and objectivity. They have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and present the financial position, the changes in its financial position, and cash flows of the District as of December 31, 2005, and for the year then ended. This summary of significant accounting policies of the District is presented to assist in understanding the financial statements.

Reporting Entity

Twin Creeks Special Service District (the District) is an enterprise fund type of the governmental entity Wasatch County operated similar to a private business enterprise. The intent of the governing body is that the costs of providing goods and services on a continuing basis to the general public within the District's boundaries be financed or recovered primarily through user charges for water sales, wastewater collection and treatment services, and special assessments.

Component Unit

Under the guidelines established by GASB 39, the District has been determined to be a component unit of Wasatch County for financial accounting purposes and is included as a blended component unit in the County's financial statements.

Basis of Accounting

Enterprise funds focus on measurement of the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of this fund, both current and noncurrent, are included on the statement of net assets. The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Enterprise funds follow all Governmental Accounting Standards Board (GASB) pronouncements. In addition all Financial Accounting Standards Board (FASB) and Accounting Principles Board (APB) opinions pronouncements issued on or before November 30, 1989 are followed unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of Accounting *(Continued)*

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principle operating revenues of the District are charges to customers for water sales, wastewater collection and treatment services provided by the District, and special assessments. Operating expenses for the District include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. It is the District's policy to use restricted resources first when expenses are incurred for purposes for which both restricted and unrestricted assets are available.

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000.

The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	Years
Water Treatment Plant and Improvements	50
Sewer System	50
Water System	50
Vehicles	5
Equipment	5 – 50
Office Equipment	5 – 10

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 the income for the period.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Accounts Receivable

Wasatch County passed an ordinance allowing the District to place a lien on any property with an overdue balance on the fees. The District will place a lien on the property if the account is ninety (90) days delinquent at September 1. The District will eventually collect the fees; therefore, an allowance for doubtful accounts is not recorded in the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Budgeting

The District's governing board adopts a budget for each calendar year prior to the beginning of the year. These budgets are amended during the year, as the board deems necessary, to accommodate current operations and are accepted by official vote of the board. The budget for the year ended December 31, 2005 was not amended.

Cash and Cash Equivalents

The District defines cash and cash equivalents as all deposits in its checking and money market accounts, and all highly liquid debt instruments purchased with a maturity of three months or less.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. The District also carries commercial workers' compensation insurance. There were no significant reductions in coverage from the prior year, and settlement claims resulting from these risks have not exceeded the commercial insurance coverage in the last three years.

Compensated Absences

The District's compensation policy permits employees to accumulate unused vacation. Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Compensated Absences *(Continued)*

employment. Sick leave is forfeited at termination of employment and, therefore, is excluded from accrued compensated absences. The amount of accrued vacation is $5,202 as of December 31, 2005.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by outside parties, creditors, grantors or laws or regulations of other governments. The District first utilizes restricted resources to finance qualifying activities. See Note 10 for additional information.

NOTE 2 – DEPOSITS, INVESTMENTS, AND RESTRICTED ASSETS

Deposits and Investments

The District follows the requirements of the Utah Money Management Act (*Utah Code* Annotated 1953, Section 51, Chapter 7) and the rules of the Utah Money Management Council in handling its depository and temporary investment transactions. Following are discussions of the District's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005, none of the District's bank balances of $139,083 were uninsured and uncollateralized.

NOTE 2 – DEPOSITS, INVESTMENTS, AND RESTRICTED ASSETS *(CONTINUED)*

Deposits and Investments *(Continued)*

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The District is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended December 31, 2005, the District had investments of $938,515 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Restricted Assets

The District issued Sewer Revenue Bonds and Sewer Assessment bonds during 1999. The bond covenants require the District to maintain a debt reserve equal to 10% of the initial bond issue. The District has placed these funds in escrow accounts with Zions Bank and PTIF. The balance in these accounts at December 31, 2005 was $240,924. The District established a second trust account with Zions Bank which is used to accrue funds for interest payments for the Sewer Revenue Bond. The balance in this account at December 31, 2005 was $10,431. The District has established other accounts which are used for restricted funds related to outstanding debt. The balance in these accounts at December 31, 2005 was $1,126. The District issued a Sewer Assessment bond in 2004. The bond covenants require the District to fund a debt reserve over 10 years until the balance is equal to $45,000. To this extent, the District has placed in reserved $5,250 as of December 31,

NOTE 2 – DEPOSITS, INVESTMENTS, AND RESTRICTED ASSETS *(CONTINUED)*

Restricted Assets *(Continued)*

2005. Also in 2004, the District issued a Water Revenue bond. The bond covenants require the District to fund a debt reserve account for $70 a month from date of bond issuance until the balance is equal to $5,000. To this extent, the District has placed in reserve $1,540 as of December 31, 2005. The District collects developer determined assessments and holds the funds until such time as the developer requests. The District held funds totaling $79,863 as of December 31, 2005.

In 2001, the District began collecting impact fees for sewer development and improvements as described in Note 11. Unexpended fees and interest of $587,069 is being held in a PTIF account.

Some patrons have paid off all of their future sewer assessments early. These prepaid amounts are restricted until they are needed in the future. As of December 31, 2005, the balance of prepaid sewer assessments was $76,882.

NOTE 3 – ECONOMIC DEPENDENCY

Twin Creeks Special Service District is economically dependent on the water sales, sewer collection, and wastewater treatment services it provides within its boundaries. The District received ninety-three (93) percent of its revenues from these services.

NOTE 4 – LONG-TERM DEBT

Long-term Liabilities

The District's long-term liabilities for the year ended December 31, 2005 are as follows:

	12/31/04	Additions	Reductions	12/31/05	One Year
Revenue Bonds					
Water Revenue Bond 1996	$ 1,836,000		$ (13,000)	$ 1,823,000	$ 17,000
Sewer Revenue Bond 1999	85,000		(15,000)	70,000	16,000
Special Assessment Bond 1999	1,047,000		(186,000)	861,000	197,144
Water Revenue Bond 2004A	133,500	$ 16,500	(5,000)	145,000	5,000
SID Assessment Bond 2004-1	487,000		(24,000)	463,000	24,000
Total bonds payable, net	3,588,500	16,500	(243,000)	3,362,000	259,144
Other Liabilities					
Deferred assessment revenue	1,534,000		(285,929)	1,248,071	221,143
Note payable	48,662		(36,476)	12,186	5,849
Compensated absences	5,097	105		5,202	
Total long-term liabilities	$ 5,176,259	$ 16,605	$ (565,405)	$ 4,627,459	$ 486,136

Descriptions of the long-term debt are as follows:

Water Revenue Bonds Series 1996

During 1996, the District issued Water Revenue Bonds. The bonds in the amount of $1,877,000 are due in annual principal installments ranging from $1,000 to $333,000 beginning in 1998 and going through March 1, 2026. The bonds accrue interest at 3% per annum, payable annually on March 1 of each year.

Sewer Revenue Bonds Series 1999

During 1999, the District issued Sewer Revenue Bonds. The bonds in the amount of $147,184 are due in annual principal installments ranging from $11,184 to $19,000 beginning in 2000 and going through August 1, 2009. The bonds accrue interest at rates ranging from 5.25% to 5.95%. Interest is payable annually on August 1 of each year.

NOTE 4 – LONG-TERM DEBT *(CONTINUED)*

Long-term Liabilities *(Continued)*

Sewer Assessment Bonds Series 1999

During 1999, the District issued Sewer Assessment Bonds, Series 1999. The bonds in the amount of $1,835,371 are due in annual principal installments ranging from $139,547 to $234,469 beginning in 2000 and going through May 1, 2009. The bonds accrue interest at rates ranging from 5.55% to 6.00%. Interest is payable annually on May 1 of each year.

Water Revenue Bonds Series 2004A

During 2004, the District issued Water Revenue Bonds. The bonds in the amount of $500,000 are due in annual principal installments of $5,000 beginning March 1, 2005 and going through March 1, 2034. The bonds carry a 0% interest rate and 70% of the principal amount owed is forgiven by the issuee as and at the time bond funds are drawn.

Special Improvement District Sewer Assessment Bonds Series 2004-1

During 2004, the District issued Special Improvement District (SID) Sewer Assessment Bonds. The bonds in the amount of $487,000 are due in annual principal installments ranging from $24,000 to $25,000 through December 1, 2024. The bonds carry a 0% interest rate.

Notes Payable

During 2004, the District borrowed $31,114 from Wasatch County to construct a water and sewer line. The note bears interest at 1.54% and is due in 1 year. The District retired the note in May 2005.

During 2004, the District purchased a truck. The District financed $17,548 at an annual percentage rate of 6.99%. Payments of $543 are due monthly beginning February 14, 2005, and continuing for 36 months. The note is secured by the truck.

NOTE 4 – LONG-TERM DEBT *(CONTINUED)*

Annual Debt Service Requirements

The District's annual requirements to meet their debt obligation payments to maturity are as follows:

Year ending December 31	Principal	Interest	Total Obligation
2006	$ 264,993	$ 110,894	$ 375,887
2007	281,624	97,808	379,432
2008	293,685	83,138	376,823
2009	311,884	67,999	379,883
2010	63,000	51,900	114,900
2011-2015	398,000	240,990	638,990
2016-2020	572,000	193,320	765,320
2021-2025	811,000	115,380	926,380
2026-2030	358,000	9,990	367,990
2031-2035	20,000		20,000
Total debt	3,374,186	971,419	4,345,605
Less: current portion	(264,993)	(110,894)	(375,887)
Net noncurrent debt	$ 3,109,193	$ 860,525	$ 3,969,718

NOTE 5 – CONTRIBUTED CAPITAL

During 2005, the District received irrigation water shares worth $567,639 and infrastructure worth $6,635. During 2005, debt forgiveness of the water line bond proceeds by the bondholder totaled $16,500.

NOTE 6 – SPECIAL ASSESSMENT RECEIVABLES AND DEFERRED REVENUE

At December 31, 2005, the District has recorded $1,248,071 of special assessment receivables.

During calendar year 2000, the District assessed property owners $1,835,371 for sewer improvements. The special assessment receivable is being collected in 10 annual installments. The amount billed each year is equal to the corresponding special assessment bond principal and interest payable.

NOTE 6 – SPECIAL ASSESSMENT RECEIVABLES AND DEFERRED REVENUE *(CONTINUED)*

During calendar year 2004, the District assessed property owners $487,000 for sewer improvements. The special assessment receivable is being collected in 20 annual installments. The amount billed each year is equal to the corresponding special assessment bond principal and interest payable.

Governmental accounting principles require that special assessment revenue be recognized when the underlying event has occurred (levy) and demand for payment is made (billing). Therefore, the District has recorded $1,248,071 of deferred revenue since billings for these assessments have not yet been made. See Note 4 for additional information regarding the special assessment bonds.

NOTE 7 – RELATED PARTIES

Wasatch County

During 2005, the District reimbursed Wasatch County for health insurance premiums paid on behalf of District employees, salaries paid to the administrative employees of the District, and some operational expenses such as postage and telephone usage. Reimbursements to the County for the year ending December 31, 2005 totaled $88,060.

As of December 31, 2004, the District owed Wasatch County $542,995 for the purchase of water rights for 192 acre feet. In January 2005, the District paid Wasatch County for the water rights. As of December 31, 2005, the District owes Wasatch County $4,388 for administrative services.

In May 2005, the District retired its note payable to Wasatch County in the amount of $31,114 for the construction of sewer and water lines.

The District received $9,792 in operating revenues from North Village Special Service District for the year ended December 31, 2005. The District and North Village are component units of Wasatch County.

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 is as follows:

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Capital assets, not being depreciated				
Land	$ 67,941			$ 67,941
Easements	141,085			141,085
Water rights	3,260,750	$ 567,639		3,828,389
Construction in process	481,107	38,335	$ (465,771)	53,671
Total capital assets, not being depreciated	3,950,883	605,974	(465,771)	4,091,086
Capital assets, being depreciated				
Water treatment plant	2,376,078			2,376,078
Sewer system	3,250,202			3,250,202
Water system	1,049,560	493,665		1,543,225
Vehicles	63,288			63,288
Equipment	134,035			134,035
Office equipment	7,401			7,401
Total capital assets, being depreciated	6,880,564	493,665	-0-	7,374,229
Less accumulated depreciation				
Water treatment plant	419,441	47,834		467,275
Sewer system	286,760	65,004		351,764
Water system	65,445	30,542		95,987
Vehicles	36,466	7,714		44,180
Equipment	91,621	2,944		94,565
Office equipment	5,323	475		5,798
Total accumulated depreciation	905,056	154,513	-0-	1,059,569
Net depreciable assets	5,975,508	339,152	-0-	6,314,660
Capital assets, net	$ 9,926,391	$ 945,126	$ (465,771)	$ 10,405,746

NOTE 9 – RETIREMENT PLANS

State Retirement

The District contributes to the Local Governmental Noncontributory Retirement System and the 401(k) Defined Contribution System for qualifying employees. These retirement systems are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code* Annotated 1953 (Chapter 49) as amended which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The District was required to contribute 11.09% of annual covered salary on behalf of participants in the Local Governmental Noncontributory Retirement System. Also, the District was required to contribute 2.44% of their covered employees' annual salaries for members in the 401(k) Plan Defined Contribution System. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District's contributions have been as follows:

	2005	2004	2003
Local Governmental - Noncontributory	$ 13,588	$ 10,525	$ 7,965
401(k) Plan	2,990	3,189	3,801
Total District contributions	$ 16,578	$ 13,714	$ 11,766

The contributions were equal to the required contributions for the year.

NOTE 9 – RETIREMENT PLANS *(CONTINUED)*

Cafeteria

The District offers a cafeteria plan to all employees to fund health insurance benefits.

NOTE 10 – NET ASSETS

Net assets at December 31, 2005 consisted of the following:

Invested in capital assets, net of related debt:	
Property, plant, and equipment, net	$ 10,405,746
Less: outstanding debt issued to construct capital assets	(3,348,856)
Total invested in capital assets, net of related debt	$ 7,056,890
Restricted net assets:	
Restricted for contractual agreement	$ 79,863
Restricted for sewer and water development and improvements	588,195
Outstanding debt issued to construct capital assets	(26)
Restricted for sewer and water developments and improvements , net of related debt	588,169
Restricted for debt service	258,145
Outstanding debt issued to construct capital assets	(25,304)
Restricted for debt service, net of related debt	232,841
Total restricted net assets	$ 900,873
Unrestricted net assets:	$ 99,431
Total net assets	$ 8,057,194

NOTE 11 – IMPACT FEE REVENUE

The District has assessed a sewer impact fee of $3,731 per equivalent residential unit, and a water impact fee of $5,887 per equivalent residential unit, for developments wishing to participate in the services of the District.

The State of Utah Impact Fee Act, effective July 1, 1998, requires that at the end of each fiscal year a report be prepared showing impact fees earned and expended. The information contained in that report for the year ended December 31, 2005 is as follows:

	Sewer	Water
Impact fees	$ 128,199	$ 321,740
Interest earned	5,274	8,879
Qualifying expenditures	(45,994)	(171,204)
Net change in account	87,479	159,415
Funds to be expended at beginning of year	129,027	211,148
Funds to be expended at end of year	$ 216,506	$ 370,563

As permitted by §11-36-102(16) of the Utah Impact Fees Act, water impact fees for the building permits issued on Cobblestone lots have been reduced from $5,887 to $4,770 in order to provide the developer with a dollar-for-dollar impact fee credit for fifty-percent of their cost of constructing and installing a water line which represents system improvements.

Additional Auditors' Reports and Schedules

These additional reports are required by *Government Auditing Standards* and the Utah State Auditor's Office, respectively.

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

Honorable Administrative Board Members
Twin Creeks Special Service District
Heber City, Utah

We have audited the financial statements of Twin Creeks Special Service District as of and for the year ended December 31, 2005, and have issued our report thereon dated May 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Twin Creeks Special Service District'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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance regarding whether Twin Creeks Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

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audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information of management, federal awarding agencies, pass through entities, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward + Simister, LC

HAWKINS CLOWARD & SIMISTER, LC
CERTIFIED PUBLIC ACCOUNTANTS

May 25, 2006

TWIN CREEKS
SPECIAL SERVICE DISTRICT
A COMPONENT UNIT OF WASATCH COUNTY

Schedule of Audit Findings

December 31, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Twin Creeks Special Service District.

2. There were no reportable conditions relating to the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

3. There were no instances of noncompliance required to be reported under *Government Auditing Standards.*

B. FINDINGS – FINANCIAL AUDIT CURRENT YEAR

None

C. CURRENT YEAR STATUS OF PRIOR YEAR FINDINGS

None

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UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

Honorable Administrative Board Members
Twin Creeks Special Service District
Heber City, Utah

We have audited the financial statements of Twin Creeks Special Service District for the year ended December 31, 2005, and have issued our report thereon dated May 25, 2006. Our audit included test work on the District's compliance with the following compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Special Districts
Other General Compliance Issues
Impact Fees and Other Development Fees

The District did not receive any State grants during the year ended December 31, 2005.

The management of the Twin Creeks Special Service District is responsible for the District's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

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The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above. There were no prior year instances of noncompliance.

In our opinion, Twin Creeks Special Service District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Hawkins Cloward + Simister, LC

HAWKINS CLOWARD & SIMISTER, LC
CERTIFIED PUBLIC ACCOUNTANTS

May 25, 2006